



# FORM 10-K

**MCDERMOTT INTERNATIONAL INC - mdr**

Exhibit:

**Filed: June 10, 1999 (period: March 31, 1999)**

Annual report which provides a comprehensive overview of the company for the past year

## PART IV

**Item 14.** EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

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

(Mark One) F O R M 1 0 - K  
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the fiscal year ended March 31, 1999

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

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 (I.R.S. Employer  
Incorporation or Organization) Identification No.)

1450 POYDRAS STREET 70112-6050  
NEW ORLEANS, LOUISIANA (Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code (504) 587-5400

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

Title of each class -----	Name of each Exchange on which registered -----
Common Stock, \$1.00 par value	New York Stock Exchange
Rights to Purchase Preferred 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 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 the Company's Common Stock held by non-affiliates of the registrant was \$1,725,490,308 as of April 29, 1999.

The number of shares outstanding of the Company's Common Stock at April 29, 1999 was 59,248,598.

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 1999 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

McDERMOTT INTERNATIONAL, INC.

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P A R T I

Items 1. and 2. BUSINESS AND PROPERTIES

A. GENERAL

McDermott International, Inc. ("MII") was incorporated under the laws of the Republic of Panama in 1959 and is the parent company of the McDermott group of companies, which includes J. Ray McDermott, S.A. ("JRM") and McDermott Incorporated. MII's Common Stock and JRM's Common Stock and 9.375% Senior Subordinated Notes due July 2006 are publicly traded. On May 7, 1999, MII and JRM jointly announced that they executed a definitive merger agreement pursuant to which MII will acquire all shares of JRM not already owned by MII for \$35.62 per share in cash. Pursuant to the merger agreement, on May 13, 1999, MII initiated a tender offer for all shares of JRM common stock for \$35.62 per share in cash. The tender offer will expire on June 10, 1999 unless extended. Any shares not purchased in the tender offer will be acquired for the same price in cash in a second-step merger. The tender offer is subject to the condition that the majority of the publicly held shares are validly tendered pursuant to the tender offer, as well as other customary conditions. JRM currently has approximately 39,060,000 shares of common stock outstanding, of which 24,668,297 shares, or 63%, are owned by MII, and approximately 14,400,000 are publicly held.

Hereinafter, unless the context requires otherwise, the following terms shall mean:

- . MII for McDermott International, Inc., a Panama corporation,
- . JRM for J. Ray McDermott, S. A., a majority owned Panamanian subsidiary of MII, and its consolidated subsidiaries,
- . MI for McDermott Incorporated, a Delaware subsidiary of MII, and its consolidated subsidiaries,
- . BWICO for Babcock & Wilcox Investment Company, a Delaware subsidiary of MI,
- . B&W for the Babcock & Wilcox Company, a Delaware subsidiary of BWICO, and its consolidated subsidiaries,
- . BWXT for BWX Technologies, Inc., a Delaware subsidiary of BWICO, and its consolidated subsidiaries, and
- . McDermott for the consolidated enterprise.

McDermott operates in four business segments:

- . Marine Construction Services includes the results of the operations of JRM, which supplies worldwide services for the offshore oil and gas exploration and production and hydrocarbon processing industries, and to other marine construction companies. 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 procurement activities.
- . Power Generation Systems includes the results of the operations of the Power Generation Group, which is conducted primarily through B&W, and provides services and equipment and systems to generate steam and electric power at energy facilities worldwide.
- . Government Operations includes the results of the operations of BWXT, which supplies nuclear reactor components and nuclear fuel assemblies to the U.S. Navy and various other equipment and services to the U.S. Government and manages various U.S. Government-owned facilities.
- . Industrial Operations includes the results of the operations of McDermott Engineers & Constructors (Canada) Ltd., Hudson Products Corporation, McDermott Technologies, Inc. ("MTI") and other smaller businesses.

McDermott has a continuing program of reviewing joint venture, acquisition and disposition opportunities. The following tables show revenues and operating income (loss) of McDermott for the three fiscal years ended March 31, 1999. See Note 17 to the consolidated financial statements for additional information with respect to McDermott's business segments and operations in different geographic areas.

FOR FISCAL YEARS ENDED MARCH 31,  
(Dollars in Millions)

	1999 ----		1998 ----		1997 ----	
<b>REVENUES</b>						
Marine Construction Services	\$1,279.6	40.6%	\$1,855.5	50.5%	\$1,408.5	44.7%
Power Generation Systems	1,066.2	33.8%	1,142.7	31.1%	985.4	31.3%
Government Operations	382.7	12.1%	370.5	10.1%	373.1	11.8%
Industrial Operations	427.5	13.5%	337.8	9.2%	458.1	14.5%
Adjustments and Eliminations	(6.0)	-	(31.9)	(0.9%)	(74.2)	(2.3%)
<b>Total Revenues</b>	<b>\$3,150.0</b>	<b>100.0%</b>	<b>\$3,674.6</b>	<b>100.0%</b>	<b>\$3,150.9</b>	<b>100.0%</b>
<b>OPERATING INCOME (LOSS):</b>						
Segment Operating Income (Loss):						
Marine Construction Services	\$ 126.5	46.3%	\$ 107.1	46.6%	\$ 10.8	-
Power Generation Systems	90.3	33.1%	82.5	35.8%	(34.6)	-
Government Operations	39.4	14.4%	35.8	15.6%	32.5	-
Industrial Operations	16.9	6.2%	4.7	2.0%	(30.6)	-
<b>Total</b>	<b>\$273.1</b>	<b>100.0%</b>	<b>\$230.1</b>	<b>100.0%</b>	<b>\$ (21.9)</b>	<b>100.0%</b>
Gain (Loss) on Asset Disposals and Impairments - Net:						
Marine Construction Services	\$ 18.6	80.8%	\$ (40.1)	-	\$ 29.0	-
Power Generation Systems	4.4	19.4%	(6.1)	-	(19.2)	-
Government Operations	0.2	0.8%	0.5	-	0.4	-
Industrial Operations	(0.2)	(1.0%)	128.2	-	(11.9)	-
<b>Total</b>	<b>\$ 23.0</b>	<b>100.0%</b>	<b>\$ 82.5</b>	<b>100.0%</b>	<b>\$ (1.7)</b>	<b>100.0%</b>
Income (Loss) from Investees:						
Marine Construction Services	\$ 10.7	-	\$ 70.2	82.2%	\$ (7.8)	-
Power Generation Systems	(4.7)	-	7.5	8.8%	(0.3)	-
Government Operations	4.1	-	4.3	5.0%	3.6	-
Industrial Operations	(1.7)	-	3.4	4.0%	0.7	-
<b>Total</b>	<b>\$ 8.4</b>	<b>100.0%</b>	<b>\$ 85.4</b>	<b>100.0%</b>	<b>\$ (3.8)</b>	<b>100.0%</b>
<b>SEGMENT INCOME (LOSS):</b>						
Marine Construction Services	\$155.8	51.2%	\$137.2	34.5%	\$ 32.0	-
Power Generation Systems	90.0	29.6%	83.9	21.1%	(54.1)	-
Government Operations	43.7	14.3%	40.6	10.2%	36.5	-
Industrial Operations	15.0	4.9%	136.3	34.2%	(41.8)	-
<b>Total Segment Income (Loss):</b>	<b>304.5</b>	<b>100.0%</b>	<b>398.0</b>	<b>100.0%</b>	<b>(27.4)</b>	<b>100.0%</b>
Other Unallocated Items	(51.0)		(5.3)		(72.4)	
General Corporate Expenses-Net	(36.1)		(37.2)		(47.4)	
<b>Total Operating Income (Loss)</b>	<b>\$217.4</b>		<b>\$355.5</b>		<b>\$ (147.2)</b>	

## B. MARINE CONSTRUCTION SERVICES

### GENERAL

On January 31, 1995, McDermott 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. ("OPI") in a merger transaction. Prior to the merger with OPI, JRM was a wholly owned subsidiary of MII; as a result of the merger, JRM became a majority owned subsidiary of MII. On May 7, 1999, MII and JRM entered into a merger agreement pursuant to which MII initiated a tender offer for those shares of JRM that it did not already own for \$35.62 per share in cash. Any such shares not purchased in the offer will be acquired for the same price in cash in a second-step merger. JRM conducts the business activities of this segment.

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. As a strategic operating decision, JRM has transitioned away from installation, particularly heavy-lift technology, into deep water subsea technology. This segment also provides comprehensive project management services, feasibility studies, procurement activities, 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 also participates in joint ventures. The joint ventures are accounted for using either the equity or the cost method. JRM's joint ventures are largely financed through their own resources, including, in some cases, stand-alone borrowing arrangements. JRM's two most significant joint venture investments were in the HeereMac joint venture and the McDermott-ETPM joint venture. JRM has terminated its interests in both of these joint ventures.

The HeereMac joint venture was formed in January 1989 and utilized the specialized, heavy-lift marine construction vessels which were previously owned by the two parties. Each party had a 50% interest in the joint venture, and Heerema had responsibility for its day-to-day operations. On December 19, 1997, JRM and Heerema Offshore Construction Group, Inc. ("Heerema") terminated the HeereMac joint venture. Heerema acquired and assumed JRM's 50% interest in the joint venture in exchange for cash of \$318,500,000 and title to several pieces of equipment. The equipment transferred to JRM includes two launch barges and the derrick barge 101, a 3,500-ton lift capacity, semi-submersible derrick barge. The HeereMac joint venture was accounted for using the equity method until March 31, 1997 and the cost method thereafter.

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 to provide offshore pipelaying services in the North Sea. In March 1995, JRM and ETPM S.A. expanded their joint venture's operations to include the Far East and began jointly pursuing subsea contracting work on a worldwide basis. Most of the operating companies in the McDermott-ETPM joint venture were majority-owned and controlled by JRM and were consolidated for financial reporting purposes. However, the operations of McDermott-ETPM West, Inc., which conducts operations in the North Sea, South America and West Africa, were managed and controlled by ETPM S.A. McDermott-ETPM West, Inc. was accounted for using the equity method. On April 3, 1998, JRM and ETPM S.A. terminated the McDermott-ETPM joint venture. Pursuant to the termination, JRM received net cash of approximately \$105,000,000 and the derrick/lay barge 1601 and assumed 100% ownership of McDermott-ETPM East, Inc. and McDermott-ETPM Far East, Inc. ETPM S.A. received the lay barge 200 and took ownership of McDermott Subsea Constructors Limited ("MSCL") and McDermott-ETPM West, Inc.

JRM participates in other joint ventures 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 May 1998, JRM sold its Aberdeen based engineering business of McDermott Engineering (Europe) Limited and announced its intention to withdraw from traditional European engineering markets. See Note 17 to the consolidated financial statements regarding these events. JRM retains a presence in the European markets via Mentor Subsea Technology Services, Ltd. to focus on subsea opportunities. During fiscal year 1999, McDermott announced its intention to withdraw from substantially all third-party engineering activities.

At March 31, 1999, JRM owned or operated 5 fabrication facilities throughout the world. JRM's principal domestic fabrication yard and offshore base is located on 1,114 acres of land, under lease, near Morgan City, Louisiana. JRM also owns or operates fabrication facilities in the following locations: near Corpus Christi, Texas; near Inverness, Scotland; in Indonesia on Batam Island; and in Jebel Ali, U.A.E. JRM also owns and operates a ship repair yard in Veracruz, Mexico.

JRM's 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 can fabricate a full range of offshore structures, from conventional jacket-type fixed platforms 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.

At March 31, 1999, expiration dates, including renewal options, of leases covering land for JRM's fabrication yards were as follows:

Morgan City, Louisiana	Years 2000-2033
Jebel Ali, U.A.E.	Year 2005
Batam Island, Indonesia	Year 2008

JRM owns or, through its ownership interests in joint ventures, has interests in one of the largest fleets 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. At March 31, 1999, JRM owned or, through ownership interests in joint ventures, had interests in 5 derrick vessels, 2 pipelaying vessels and 8 combination derrick-pipelaying vessels. The lifting capacities of the derrick and combination derrick-pipelaying vessels range from 800 to 5,000 tons. These vessels range in length from 400 to 698 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. The largest vessel is the semi-submersible derrick barge 101.

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.

#### FOREIGN OPERATIONS

JRM's revenues, net of intersegment revenues, and segment income derived from operations located outside of the United States, and the approximate percentages to McDermott's total revenues and total segment income, respectively, follow:

FISCAL YEAR	REVENUES		SEGMENT	INCOME
	AMOUNT	PERCENT	AMOUNT	PERCENT
	(Dollars in thousands)			
1999	\$ 731,022	23%	\$129,440	43%
1998	1,112,685	30%	317,482	80%
1997	839,583	27%	14,525	-

#### RAW MATERIALS

This segment uses raw materials such as carbon and alloy steel in various forms, welding gases, concrete, fuel oil and gasoline that are available from many sources. JRM 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. Customers generally contract with JRM 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. Contracts are usually awarded on a competitive bid basis. A number of companies compete effectively with JRM and its joint ventures in each of the separate marine construction phases in various parts of the world. Examples are Aker Gulf Marine, Gulf Island Fabrication, Inc., Hyundai Heavy Industries, Global Industries Ltd., Saipem S.p.A., Heerema Offshore Construction Group, Inc. and other companies.

#### BACKLOG

At March 31, 1999 and 1998, Marine Construction Services' backlog amounted to \$406,183,000 and \$1,266,310,000, respectively. This represents approximately 16% and 37%, respectively, of McDermott's total backlog. JRM's backlog declined in all operating areas because of lower oil prices. In addition, backlog declined because of JRM's withdrawal from traditional engineering markets. Finally, backlog decreased because of sluggish economic conditions in the Middle and Far East and the political instability in the Far East. Of the March 31, 1999 backlog, management expects that approximately \$386,454,000 will be recognized in revenues in fiscal year 2000 and \$19,729,000 in fiscal year 2001.

JRM has been awarded a contract valued at \$20,500,000 from Larsen & Toubro Limited for the ONGC Pipelines and Platform Modification Project. Under this contract, JRM is responsible for transportation of coated pipelines and offshore installation of 12 pipelines, 17 risers, 3 subsea tie-ins, and 19 crossings. JRM is also responsible for freespan rectification and de-watering and commissioning of one pipeline with platform gas.

Subsequent to March 31, 1999, JRM was awarded a contract for \$335,000,000 from Conoco Indonesia Inc. and other West Natuna Sea operators to construct a subsea natural gas pipeline from Indonesia's West Natuna Sea gas fields to Singapore. This award was not included in backlog at March 31, 1999.

Work has historically been performed on a fixed-price, cost-plus or day-rate basis or a combination thereof. More recently, certain "partnering-type" contracts have introduced a risk and reward element wherein a portion of total compensation is tied to the overall performance of the alliance partners. This segment attempts to cover increased costs of anticipated changes in labor, material and service costs of long-term contracts either through an estimate 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 this segment depends mainly on the capital expenditures of oil and gas companies and foreign governments for developmental construction.

Several factors influence these expenditures:

- . oil and gas prices, 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.

In some Far East countries, internal consumption of oil and gas products has decreased due to the current economic crises.

Oil and gas company capital exploration and production budgets for calendar year 1999 have been significantly reduced because of falling oil and gas prices. These budgets are now set and, therefore, unaffected by the partial recovery in prices resulting from the recent OPEC production agreements. Economic and political conditions in Asia have had an adverse effect on exploration and production spending.

## C. POWER GENERATION SYSTEMS

### GENERAL

The Power Generation Systems segment:

- . supplies engineered-to-order services, products and systems for energy conversion worldwide and related industrial equipment, such as burners, pulverizer mills, soot blowers and ash handlers,
- . manufactures heavy pressure equipment for energy conversion such as boilers fueled by coal, oil, bitumen, natural gas, solid municipal waste, biomass, and other fuels,
- . fabricates steam generators for nuclear power plants,
- . designs and supplies environmental control systems, including both wet and dry scrubbers for flue gas desulfurization, modules for selective catalytic reduction of nitrogen oxides, and electrostatic precipitators and similar devices,
- . supports operating plants with a wide variety of services, including the installation of new systems and replacement parts, engineering upgrades, construction, maintenance, and field technical services such as condition assessment,
- . provides inventory services to help customers respond quickly to plant interruptions and to construction crews to maintain and repair operating equipment, and
- . provides power through cogeneration, refuse-fueled power plants, and other independent power producing facilities, and participates 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 principal manufacturing plants of this segment, which B&W owns, are located in West Point, Mississippi; Lancaster, Ohio; and Cambridge, Ontario, Canada. B&W closed its Paris, Texas plant in fiscal year 1999. This segment's unconsolidated affiliates' (equity investees) foreign plants are located in Beijing, China; Batam Island, Indonesia; Pune, India; and Cairo, Egypt. This segment also operates independent power facilities located in Ebensburg, Pennsylvania and Sunnyside, Utah. All of these plants are well maintained, have suitable equipment and are of adequate size.

### FOREIGN OPERATIONS

Power Generation Systems' revenues, net of intersegment revenues, and segment income (loss) derived from operations located outside of the United States, and the approximate percentages to McDermott's total revenues and total segment income (loss), respectively, follow:

FISCAL YEAR	AMOUNT	REVENUES		SEGMENT INCOME (LOSS)	
		PERCENT	AMOUNT	PERCENT	PERCENT
		(Dollars in Thousands)			
1999	\$189,148	6%	\$ 8,283	3%	
1998	196,831	5%	25,694	6%	
1997	296,544	9%	(33,701)	123%	

Products for McDermott 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 Power Generations Systems segment uses raw materials such as carbon and alloy steels in various forms, such as plates, forgings, structurals, bars, sheets, strips, heavy wall pipes and tubes to construct power generation systems and equipment. Significant amounts of components and accessories are also purchased for assembly into the 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.

#### CUSTOMERS AND COMPETITION

This segment's principal customers are the electric power generation industry (including government-owned utilities and independent power producers); the pulp and paper industry; process industries such as petrochemical plants, oil refineries and steel mills; and other steam-using industries and institutions. The electric power generation industry accounted for approximately 26%, 24% and 22% of McDermott's total revenues for fiscal years 1999, 1998 and 1997, respectively.

Customers normally purchase services, equipment or systems from the Power Generation Systems segment after an extensive evaluation process based on competitive bids. Proposals are submitted based on the estimated cost of each job.

Within the United States, the Power Generation Systems segment competes with a number of domestic and foreign-based companies specializing in steam generating systems, equipment and services. Examples include ABB Asea Brown Boveri Ltd., Ahlstrom Corporation, DB Riley, Inc., Foster Wheeler Corporation, Kvaerner ASA, and other companies. In international markets, this segment competes against these companies, plus additional foreign-based companies. A number of additional companies compete in environmental control equipment, related specialized industrial equipment and the independent power producing business. Other suppliers of 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.

#### BACKLOG

At March 31, 1999 and 1998, this segment's backlog amounted to \$905,283,000 and \$1,070,351,000, or approximately 35% and 31%, respectively, of McDermott's backlog. Backlog decreased primarily as a result of delays and cancellations of power projects in Southeast Asia due to that region's current economic crisis and management's focus on higher margin projects. Backlog includes \$65,000,000 of delayed contracts as a result of the Asian economic crisis. Of the March 31, 1999 backlog, it is expected that approximately \$552,534,000 will be recognized in revenues in fiscal year 2000, \$173,501,000 in fiscal year 2001 and \$179,248,000 thereafter, of which approximately 77% will be recognized in fiscal years 2002 through 2004.

During fiscal year 1999, this segment was awarded a contract valued at approximately \$100,000,000 to supply four nuclear steam generators to Baltimore Gas and Electric's Calvert Cliffs nuclear power plant on Chesapeake Bay in Calvert County, Maryland. This segment also received a \$46,000,000 contract for a Sidi Krir, Egypt

build, own, operate and transfer ("BOOT") project for two utility boilers from Bechtel International Inc. for InterGen; and a contract valued at \$40,000,000 for boiler maintenance and precipitator installation at Dominion Energy's Kincaid Station in Kincaid, Illinois.

If in management's judgment it becomes doubtful whether contracts will proceed, the backlog is adjusted accordingly. If contracts are deferred or cancelled, the Power Generation Systems segment 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.

The Power Generation Systems segment attempts to cover increased costs of anticipated changes in labor, material and service costs of long-term contracts either through an estimate 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 parts of Asia and the Middle East are current purchasers of new baseload generating units and environmental control systems. This was due to the growth of their economies and to the small existing stock of electrical generating capacity in most developing countries. However, a currency crisis, which began in Southeast Asia in the summer of 1997, has slowed the number of inquiries and orders. With the international markets in an unsettled condition, several projects in emerging markets have been delayed, suspended or cancelled. Management expects this segment to be adversely affected if the adverse economic and political conditions in Southeast Asia continue.

Electrical consumption has grown moderately in the United States in recent years and competition within the electric power industry in the United States has intensified. The Energy Policy Act of 1992 deregulated the electric power generation industry by allowing independent power producers access to the electric utilities' transmission and distribution systems. Several states have changed their laws to encourage competition among generators of electricity. The modest growth in demand and the changes associated with this transition from a regulated to a competitive industry have caused electric power companies to defer ordering new coal-fired 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 are purchasing electricity from other utilities and non-regulated sources, such as cogenerators and independent power producers.

Substantially all the customers of the Power Generation Systems segment are affected by environmental regulations of the countries in which their facilities are located. In the United States, the Clean Air Act requires many customer industries to implement systems to limit or remove emissions. These mandated expenditures have caused some customers to defer refurbishments of existing plants. The same requirements have caused other customers to purchase environmental control equipment from this segment. Future changes in environmental regulations will continue to affect demand for this segment's products and services.

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

#### D. GOVERNMENT OPERATIONS

##### GENERAL

The Government Operations segment provides nuclear fuel assemblies and nuclear reactor components to the U.S. Navy for the Naval Reactors Program. This activity has made contributions to operating income of McDermott in all three fiscal years and is expected to do so in the foreseeable future. This segment, in addition to its Naval Reactors Program business, supplies other equipment and services to the U.S. Government. It is

also proceeding with new Government projects and exploring new programs which require the technological capabilities it developed as a Government contractor. Environmental restoration services and the management of government-owned facilities, primarily within the Department of Energy's ("DOE") nuclear weapons complex, are examples of these markets.

The principal plants of this segment are located in Lynchburg, Virginia and Barberton, Ohio.

#### RAW MATERIALS

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

This segment is the sole supplier to the U.S. Navy of all major nuclear steam system equipment and all nuclear fuel assemblies and reactor components for the Naval Reactors Program. There are a small number of suppliers of small nuclear components, with BWXT being the largest based on revenues. This segment is involved along with other companies in the operation of the Idaho National Engineering and Environmental Laboratory near Idaho Falls, Idaho; the Rocky Flats Environmental Technology Site near Boulder, Colorado; the Savannah River Site in Aiken, South Carolina; and the Hanford Site in Richland, Washington. During fiscal year 1998, the Government Operations segment received a contract from the U.S. DOE as the prime contractor to manage the environmental remediation and site transition project at the DOE's Mound Site in Miamisburg, Ohio. A BWXT subsidiary, Babcock & Wilcox of Ohio, Inc., began performance under the several hundred million dollar multi-year contract in October 1997. The contract is subject to annual funding. For the fiscal years 1999, 1998 and 1997, the U.S. Government accounted for approximately 12%, 10% and 11%, respectively, of McDermott's total revenues, including 8%, 7% and 10%, respectively, related to nuclear fuel assemblies and reactor components for the U.S. Navy.

#### BACKLOG

At March 31, 1999 and 1998, Government Operations segment backlog amounted to \$860,981,000 and \$810,230,000, or approximately 33% and 24%, respectively, of McDermott's backlog. Of the March 31, 1999 backlog, management expects that approximately \$330,532,000 will be recognized in revenues in fiscal year 2000, \$194,694,000 in fiscal year 2001 and \$335,755,000 thereafter, of which approximately 89% will be recognized in fiscal years 2002 through 2004. At March 31, 1999, this segment's backlog with the U.S. Government was \$760,202,000 (of which \$12,023,000 had not yet been funded), or approximately 30% of McDermott's total backlog. The March 31, 1999 U.S. Government backlog includes only the current year funding for the DOE Mound Site in Miamisburg, Ohio. During fiscal year 1999, this segment was awarded approximately \$270,000,000 in new orders for aircraft carrier components, prototypical steam generation equipment for the newest submarine design and the downloading of enriched uranium for the commercial markets.

#### FACTORS AFFECTING DEMAND

This segment's systems are generally capital intensive. This segment may be impacted by U.S. Government budget restraints.

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. Orders for U.S. Navy nuclear fuel assemblies and nuclear reactor components are expected to continue to be a significant part of backlog since this segment is the sole source provider of these nuclear fuel assemblies and nuclear reactor components.

## E. INDUSTRIAL OPERATIONS

### GENERAL

Industrial Operations includes the results of Engineering and Construction operations, Hudson Products Corporation ("HPC") and MTI, and other businesses. Engineering and Construction operations are conducted primarily through McDermott Engineers & Constructors (Canada), Ltd. ("MECL").

MECL provides services, including project management, conceptual and process design, front-end engineering and design, detailed engineering, procurement, construction management and contract maintenance. HPC products include air-cooled heat exchangers, combination water and air-cooled systems, air-cooled vacuum steam condensers, fiberglass reinforced axial flow fans for air-cooled heat exchangers and wet cooling towers and fan control systems. MTI performs research activities for internal operating segments of McDermott and markets, negotiates and administers contracts that leverage company research and development technology needs with external funds.

The principal plant of HPC is located in Beasley, Texas. One of Industrial Operations' unconsolidated affiliates has a plant in Monterrey, Mexico, which manufactures axial flow fans and structural components for air-cooled heat exchangers. Both of these plants are well maintained, have suitable equipment and are of adequate size. MTI's research and development facilities are located in Alliance, Ohio and Lynchburg, Virginia. MECL is located in Calgary, Alberta, Canada.

### FOREIGN OPERATIONS

Industrial Operations' revenues, net of intersegment revenues, and segment income (loss) derived from operations located outside of the United States, and the approximate percentages to McDermott's total revenues and total segment income (loss), respectively, follow:

FISCAL YEAR	REVENUES		SEGMENT INCOME (LOSS)	
	AMOUNT	PERCENT	AMOUNT	PERCENT
	(Dollars in Thousands)			
1999	\$319,937	10%	\$ 4,592	2%
1998	195,886	5%	90,516	23%
1997	242,973	8%	(29,614)	108%

### RAW MATERIALS

Industrial Operations uses raw materials such as carbon and alloy steels in various forms, such as plates, bars, sheets, and pipes, and aluminum pipes, aluminum strips, fiberglass cloth and epoxy resins. The majority of raw materials and components are purchased as needed for individual contracts. Additional quantities of raw materials are carried as base stock for jobs requiring quick turnaround. Although extended lead time of certain raw materials have existed from time to time, no serious shortage exists at the present time, nor is any shortage expected in the foreseeable future. Industrial Operations is not sole source dependent for any significant raw materials.

### CUSTOMERS AND COMPETITION

Industrial Operations' principal customers include oil and natural gas producers, the electric power generation industry, petrochemical and chemical processing industries, state and federal government agencies and non-profit utility groups.

Equipment orders for items such as air-cooled heat exchangers are customarily awarded after competitive bids have been submitted as proposals to customers based on the estimated cost of each job. In both the U.S. and international markets, this segment competes with a number of domestic and foreign-based companies

specializing in air-cooled heat exchanger equipment. The majority of the engineering and construction operations contracts are awarded in a competitive market in which both price and quality are considerations.

#### BACKLOG

At March 31, 1999 and 1998, Industrial Operations' backlog amounted to \$400,649,000 and \$262,339,000, or approximately 16% and 8%, respectively, of McDermott's total backlog. Of the March 31, 1999 backlog, management expects that approximately \$352,900,000 will be recognized in revenues in fiscal year 2000, \$43,509,000 in fiscal year 2001 and \$4,240,000 thereafter.

This segment received a contract award valued at \$80,000,000 for the engineering, procurement and construction management contract for the Impress Phase 5 Natural Gas Liquids Extraction Plant for Canada Petroleum Company and its partner TransCanada Pipelines Ltd.

Also, they were awarded a contract for the engineering, procurement and construction management contract for \$60,000,000 cogeneration plant in Fort Saskatchewan, Alberta by TransAlta Energy Corporation and Air Liquide Canada Inc.

In addition, they were awarded a \$200,000,000 contract to supply engineering and procurement services for world scale gas liquids extraction facilities and fractionation facilities to be built near Joliet, Illinois by Aux Sable Liquid Products LP.

The remaining value of all contracts with the above three customers reflected in the March 31, 1999 backlog is \$262,545,000.

#### FACTORS AFFECTING DEMAND

The equipment and services provided by Industrial Operations are somewhat capital intensive, and the demand for its equipment and services is affected by variations in the business cycles of their customers' industries and in the overall economies in their regions. Variations in business cycles are affected by the price of oil. Industrial Operations is also affected by legislative issues such as environmental regulations and fluctuations in U.S. Government funding patterns. Seasonal plant outages, business cycles and economic conditions cause variations in availability of funds for investment and maintenance at customers' facilities.

#### F. PATENTS AND LICENSES

McDermott has been issued many U.S. and foreign patents and it has many pending patent applications. Patents and licenses have been acquired and licenses have been granted to others when advantageous to McDermott. While McDermott 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.

#### G. RESEARCH AND DEVELOPMENT ACTIVITIES

McDermott conducts its principal research and development activities at MTI's research centers in Alliance, Ohio and Lynchburg, Virginia. McDermott also conducts development activities at its various manufacturing plants and engineering and design offices. McDermott spent approximately \$28,064,000, \$37,928,000 and \$50,749,000, on research and development activities during the fiscal years ended March 31, 1999, 1998 and 1997, respectively. Contractual arrangements for customer-sponsored research and development can vary on a case by case basis, and includes contracts, cooperative agreements and grants. Customers of McDermott paid for approximately \$15,752,000, \$22,803,000 and \$34,170,000, of the total spent on research and development expenses during fiscal years 1999, 1998 and 1997, respectively. 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. MTI's multi-million dollar clean environment development facility in Alliance, Ohio was constructed in response to present and future emission pollution standards in the

U.S. and worldwide. Approximately 125 employees were engaged full time in research and development activities at March 31, 1999.

#### H. INSURANCE

McDermott maintains liability and property insurance against such risk and in such amounts as it considers adequate. However, certain risks are either not insurable or insurance is available only at rates which McDermott considers uneconomical. These risks include 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 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 may be subject.

McDermott'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 a customer's property, McDermott obtains 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 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 a certain amount. This amount 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 provides environmental remediation services, it seeks the same protection from its customers as it does for its other nuclear activities.

Although McDermott does not own or operate any nuclear reactors, it has coverage under commercially available nuclear liability and property insurance for three of its four facilities that are licensed to possess special nuclear materials. The fourth facility operates primarily as a conventional research center. 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 MTI's Lynchburg, Virginia site. These facilities are insured under a nuclear liability policy that also insures the facility of Framatome Cogema Fuel Company ("FCFC"), formerly B&W Fuel Company, that was sold during fiscal year 1993. All three licensed facilities share the same nuclear liability insurance limit, as the commercial insurer would not allow FCFC to obtain a separate nuclear liability insurance policy. Due to the type or quantity of nuclear material present under contract with the U.S. Government, two facilities in Lynchburg have statutory indemnity and limitation of liability as provided under the Act. In addition, contracts to manufacture and supply nuclear fuel or nuclear components to the U.S. Government contain statutory indemnity clauses, whereby the U.S. Government has assumed the risks of public liability claims related to nuclear incidents.

JRM's offshore construction business is subject to the usual risks of operations at sea. JRM has additional exposure because it uses expensive construction equipment, sometimes under extreme weather conditions, often in remote areas of the world. In many cases, JRM also operates on or in proximity to existing offshore facilities. These facilities are subject to damage which could result in the escape of oil and gas into the sea.

McDermott's insurance coverage for products liability and employers' liability claims is subject to varying insurance limits that are dependent upon the year involved. B&W has agreements with the majority of its principal insurers concerning the method of allocation of products liability asbestos claim payments to the years of coverage. Pursuant to those agreements, B&W negotiates and settles these claims and bills these amounts to the appropriate insurers. McDermott has recognized a provision to the extent that recovery of these amounts from the insurers is not probable. McDermott's estimates of future asbestos products liability and probable insurance recoveries are based on prior history and management's best estimate of cost based on all available information. However, future costs to settle claims, as well as the number of claims, could be adversely

affected by changes in judicial rulings and influences beyond McDermott's control. Accordingly, changes in the estimates of future asbestos products liability and insurance recoverables and differences between the proportion of any additional asbestos products liabilities covered by insurance, and that experienced in the past could result in material adjustments to the results of operations for any fiscal quarter or year, and the ultimate loss may differ materially from amounts provided in the consolidated financial statements.

MII has two wholly-owned insurance subsidiaries that provide general and automotive liability, builders' risk within certain limits, marine hull, and workers' compensation insurance to the McDermott group of companies. These insurance subsidiaries have not provided significant amounts of insurance to unrelated parties.

#### I. EMPLOYEES

At March 31, 1999, McDermott employed, under its direct supervision, approximately 20,350 persons compared with 24,700 at March 31, 1998. Approximately 7,000 employees were members of labor unions at March 31, 1999 as compared with approximately 6,400 at March 31, 1998. After nine months of negotiations between BWXT and one of its unions, BWXT temporarily discontinued operations for their union workforce on April 23, 1999 due to the union's refusal to vote on a new labor contract. Negotiations continued and the union ratified BWXT's final offer on May 9, 1999 and the union workers returned to work. The majority of B&W's and BWXT's manufacturing facilities operate under union contracts which customarily are renewed every two to three years. One union contract covering 200 hourly workers at one of B&W's Ohio facilities expired on April 24, 1999. The negotiating groups are operating under a day-to-day agreement and management expects to renew the contract without incident. During the next twelve months, three union contracts covering approximately 100 B&W hourly workers will expire. Management expects to renew the contracts without incident. McDermott considers its relationship with its employees to be satisfactory.

#### J. ENVIRONMENTAL REGULATIONS AND MATTERS

McDermott is subject to the existing and evolving legal and regulatory standards relating to the environment. These standards include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, and the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA"). They also include any similar laws that provide for responses to and liability for releases of hazardous substances into the environment, and other federal laws, each as amended. These standards also include similar foreign, state or local counterparts to these federal laws, which regulate air emissions, water discharges, hazardous substances and wastes, and require public disclosure related to the use of various hazardous substances.

McDermott's operations are also governed by laws and regulations relating to workplace safety and worker health, primarily the Occupational Safety and Health Act and regulations promulgated thereunder. McDermott believes that its facilities are in substantial compliance with current regulatory standards.

McDermott's compliance with U.S. federal, state and local environmental control and protection regulations necessitated capital expenditures of \$413,000 in fiscal year 1999. Management expects to spend another \$3,046,000 on such capital expenditures over the next five years. Management cannot predict all of the environmental requirements or circumstances that will exist in the future, but anticipates that environmental control and protection standards will become increasingly stringent and costly. Complying with existing environmental regulations resulted in pretax charges of approximately \$13,299,000 in fiscal year 1999.

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

Remediation projects have been or may be undertaken at certain of McDermott's current and former plant sites. During fiscal year 1995, B&W completed, subject to Nuclear Regulatory Commission ("NRC") certification, the decommissioning and decontamination of its former nuclear fuel processing plant at Apollo, Pennsylvania. All fabrication and support buildings have been removed, and all contaminated soil has been shipped to authorized disposal facilities. In fiscal year 1997, B&W was notified by the NRC that the Apollo plant site had been released for unrestricted use. The Apollo plant site is the first major nuclear facility in the U.S. to achieve "green-field" status after remediation, and will now be removed from the NRC's Site Decommissioning Management Plan. The nuclear license for the plant was terminated.

During fiscal year 1995, management decided to close B&W's nuclear manufacturing facilities in Parks Township, Armstrong County, Pennsylvania (the "Parks Facilities"). Decontamination is proceeding as permitted by the existing NRC license. A decommissioning plan was submitted to the NRC for review and approval during January 1996. The facilities were transferred to BWXT in fiscal year 1998. BWXT's management reached an agreement with the NRC in fiscal year 1999 on a plan that provides for the completion of facilities dismantlement and soil restoration by 2001 and license termination in 2002. BWXT's management expects to request approval from the NRC to release the site for unrestricted use at that time. At March 31, 1999, the remaining provision for the decontamination, decommissioning and the closing of these facilities was \$15,811,000.

The Department of Environmental Protection of the Commonwealth of Pennsylvania ("PADEP"), by letter dated March 19, 1994, advised B&W that it would seek monetary sanctions, and remedial and monitoring relief, related to the Parks Facilities. The relief sought related to potential groundwater contamination of the previous operations of the facilities. These facilities are now a part of BWXT. PADEP has advised BWXT that it does not intend to assess any monetary sanctions provided that BWXT continues its remediation program of the Parks Facilities.

At March 31, 1999 and 1998, McDermott had total environmental reserves (including provisions for the facilities discussed above), of \$31,568,000 and \$46,164,000, respectively. Of the total environmental reserves at March 31, 1999 and 1998, \$19,835,000 and \$9,934,000, respectively, were included in current liabilities. Estimated recoveries of these costs are included in environmental and products liability recoverable at March 31, 1999. Inherent in the estimates of such reserves and recoveries are expected levels of contamination, decommissioning costs and recoverability from other parties, which may vary significantly as decommissioning activities progress. Accordingly, changes in estimates could result in a material adjustment to operating results, and the ultimate loss may differ materially from amounts provided in the consolidated financial statements.

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

Decommissioning regulations promulgated by the NRC require BWXT and MTI to provide financial assurance that it will be able to pay the expected cost of decommissioning its facilities at the end of their service lives. BWXT and MTI will continue to provide financial assurance of \$25,103,000 during fiscal year 2000 by issuing letters of credit for the ultimate decommissioning of all its licensed facilities, except one. This facility, which represents the largest portion of BWXT's eventual decommissioning costs, has provisions in its government contracts pursuant to which all of its decommissioning costs and financial assurance obligations are covered by the U.S. Government (DOE).

An agreement between the NRC and the State of Ohio to transfer regulatory authority for MTI/NRC licenses for byproduct and source nuclear material is anticipated to occur in July 1999. In conjunction with the transfer of this regulatory authority and upon notification by NRC of the effective date of agreement, MTI will reissue decommissioning financial assurance instruments naming the State of Ohio as the beneficiary. No other provisions of the instruments will be modified at this time.

ITEM 3. LEGAL PROCEEDINGS

In March 1997, MII and JRM, with the help of outside counsel, began an investigation into allegations of wrongdoing by a limited number of former employees of MII and JRM and others. The allegations concerned the heavy-lift business of JRM's HeereMac joint venture ("HeereMac") with Heerema Offshore Construction Group, Inc. ("Heerema"). Upon becoming aware of these allegations, MII and JRM notified authorities, including the Antitrust Division of the U.S. Department of Justice and the European Commission. As a result of MII's and JRM's prompt disclosure of the allegations, both companies and their officers, directors and employees at the time of the disclosure were granted immunity from criminal prosecution by the Department of Justice for any anti-competitive acts involving worldwide heavy-lift activities.

After receiving the allegations, JRM initiated action to terminate its interest in HeereMac, and, on December 19, 1997, JRM's co-venturer in the joint venture, Heerema, acquired JRM's interest in exchange for cash and title to several pieces of equipment. On December 21, 1997, HeereMac and one of its employees pled guilty to criminal charges by the Department of Justice that they and others had participated in a conspiracy to rig bids in connection with the heavy-lift business of HeereMac in the Gulf of Mexico, North Sea and Far East. HeereMac and the HeereMac employee were fined \$49,000,000 and \$100,000, respectively. As part of the plea, both HeereMac and certain employees of HeereMac agreed to cooperate fully with the Department of Justice investigation. Neither MII, JRM nor any of their officers, directors or employees was a party to those proceedings.

MI and JRM have cooperated and are continuing to cooperate with the Department of Justice in its investigation. The Department of Justice also has requested additional information from the companies relating to possible anti-competitive activity in the marine construction business of McDermott-ETPM East, Inc., one of the operating companies within JRM's former McDermott-ETPM joint venture with ETPM S.A., a French company. In connection with the termination of the McDermott-ETPM joint venture on April 3, 1998, JRM assumed 100% ownership of McDermott-ETPM East, Inc., which has been renamed J. Ray McDermott Middle East, Inc.

In June 1998, Phillips Petroleum Company (individually and on behalf of certain co-venturers) and certain related entities (the "Phillips Plaintiffs") filed a lawsuit in the United States District Court for the Southern District of Texas against MII, JRM, MI, McDermott-ETPM, Inc., certain JRM subsidiaries, HeereMac, Heerema, certain Heerema affiliates, and others alleging that the defendants engaged in anti-competitive acts in violation of Sections 1 and 2 of the Sherman Act and Sections 15.05 (a) and (b) of the Texas Business and Commerce Code, engaged in fraudulent activity and tortiously interfered with the plaintiffs' businesses in connection with certain offshore transportation and installation projects in the Gulf of Mexico, North Sea and Far East (the "Phillips Litigation"). In December 1998, Den norske stats oljeselskap a.s., individually and on behalf of certain of its ventures and its participants, filed a similar lawsuit in the same court. In addition to seeking injunctive relief, actual damages and attorneys' fees, the plaintiffs in the Phillips Litigation have requested punitive as well as treble damages. In January 1999, the court dismissed without prejudice, due to the court's lack of subject matter jurisdiction, the claims of the Phillips Plaintiffs relating to alleged injuries sustained on any foreign projects.

In June 1998, Shell Offshore, Inc. and certain related entities also filed a lawsuit in the United States District Court for the Southern District of Texas against MII, JRM, MI, McDermott-ETPM, Inc., certain JRM subsidiaries, HeereMac, Heerema and others alleging that the defendants engaged in anti-competitive acts in violation of Sections 1 and 2 of the Sherman Act (the "Shell Litigation"). Subsequent thereto, Amoco Production Company and B.P. Exploration & Oil, Inc.; Amerada Hess Corporation; Conoco Inc. and certain of its affiliates; Texaco Exploration and Production Inc. and certain of its affiliates; Elf Exploration UK PLC and Elf Norge a.s.; Burlington Resources Offshore, Inc. and The Louisiana Land & Exploration Company; Marathon Oil Company and certain of its affiliates; VK-Main Pass Gathering Company, L.L.C.; Green Canyon Pipeline Company, L.L.C. and Delos Gathering Company, L.L.C.; Chevron U.S.A. Inc. and Chevron Overseas Petroleum Inc.; Shell U.K. Limited and certain of its affiliates; Woodside Energy, Ltd; and Saga Petroleum, S.A. intervened (acting for themselves and, if applicable, on behalf of their respective co-venturers and for whom

they operate) as plaintiffs in the Shell Litigation. Also, in December 1998, Total Oil Marine p.l.c. and Norsk Hydro Produksjon a.s., individually and on behalf of their respective co-venturers, filed similar lawsuits in the same court, which lawsuits were consolidated with the Shell Litigation. In addition to seeking injunctive relief, actual damages and attorneys' fees, the plaintiffs in the Shell Lawsuit request treble damages.

MII and JRM are also cooperating with a Securities and Exchange Commission ("SEC") investigation into whether the companies may have violated U.S. securities laws in connection with, but not limited to, the matters described above. MII and JRM are subject to a judicial order entered in 1976, with the consent of MI (which at that time was the parent of the McDermott group of companies), pursuant to an SEC complaint (the "Consent Decree"). The Consent Decree prohibits the companies from making false entries in their books, maintaining secret or unrecorded funds or using corporate funds for unlawful purposes. Violations of the Consent Decree could result in substantial civil and/or criminal penalties to the companies.

As a result of the initial allegations of wrongdoing in March 1997, both MII and JRM formed and continue to maintain special committees of their Board of Directors to monitor and oversee the companies' investigation into all of these matters.

It is not possible to predict the ultimate outcome of the Department of Justice investigation, the SEC investigation, the companies' internal investigation, the above-referenced lawsuits, or any actions that may be taken by others as a result of HeereMac's guilty plea or otherwise. However, these matters could result in civil and criminal liability and have a material adverse effect on McDermott's consolidated financial position and results of operations.

B&W and Atlantic Richfield Company ("ARCO") are defendants in lawsuits filed by Donald F. Hall, Mary Ann Hall and others in the United States District Court for the Western District of Pennsylvania involving over 120 separate cases relating to the operation of two former nuclear fuel processing facilities located in Pennsylvania (the "Hall Litigation"), alleging, among other things, that they suffered personal injury and other damages as a result of radioactive emissions from these facilities. In September 1998, a jury found B&W and ARCO liable to the plaintiffs in the first eight cases brought to trial, awarding \$36,700,000 in compensatory damages. B&W believes that adequate insurance is available to meet any possible liability in this matter. However, the jury verdict is not final, and a number of post trial lawsuits are pending contesting this contingency. There is a controversy between B&W and its insurer as to the amount of insurance coverage under the insurance policies covering these facilities available for this award, and all other claims. B&W has filed an action seeking a judicial determination of this matter, which is currently pending in a Pennsylvania court. Management believes that the award and all other claims will be resolved within the limits and coverage of such insurance policies; however, no assurance on insurance coverage or financial impact if limits of coverage are exceeded can be given. In connection with the foregoing, B&W settled all pending and future punitive damage claims represented by the plaintiffs' lawyers in the Hall Litigation for \$8,000,000 and seeks reimbursement of this amount from other parties.

Two purported class actions have been filed in the Civil District Court for the Parish of Orleans, State of Louisiana, by alleged public shareholders of JRM, challenging MII's initial proposal to acquire the publicly traded shares of JRM Common Stock in a stock for stock merger. On May 7, 1999, MII and JRM announced that they had entered into a merger agreement pursuant to which MII will acquire all of such publicly traded shares of JRM Common Stock for \$35.62 per share pursuant to a cash tender offer followed by a second step merger. On the same day, the Court entered an order consolidating the two actions under the caption *In re J. Ray McDermott Shareholder Litigation*. There have been no further proceedings in either of the actions to date. JRM and MII believe that the actions are without merit and intend to contest these suits vigorously.

Additionally, due to the nature of its business, McDermott is, from time to time, involved in routine litigation related to its business activities. It is management's opinion that none of this routine litigation will have a material adverse effect on McDermott's consolidated financial position or results of operations.

See Item 1H and Note 11 to the consolidated financial statements regarding McDermott's potential liability for non-employee products liability asbestos claims.

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.

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P A R T I

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

MII's Common Stock is traded on the New York Stock Exchange. High and low stock prices and dividends declared for the fiscal years ended March 31, 1998 and 1999 were as follows:

FISCAL YEAR 1998

QUARTER ENDED -----	SALES PRICE -----		CASH DIVIDENDS DECLARED -----
	HIGH	LOW	
June 30, 1997	\$ 29 - 5/8	\$18	\$0.05
September 30, 1997	36 - 1/2	28 - 1/2	0.05
December 31, 1997	40 - 1/8	28 - 7/8	0.05
March 31, 1998	41 - 15/16	29 - 1/4	0.05

FISCAL YEAR 1999

QUARTER ENDED -----	SALES PRICE -----		CASH DIVIDENDS DECLARED -----
	HIGH	LOW	
June 30, 1998	\$43 - 15/16	\$ 34 - 3/8	\$0.05
September 30, 1998	35	19 - 1/4	0.05
December 31, 1998	32 - 5/16	21 - 31/32	0.05
March 31, 1999	27	19 - 1/4	0.05

As of March 31, 1999, the approximate number of record holders of Common Stock was 4,609.

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ITEM 6. SELECTED FINANCIAL DATA

	FOR THE FISCAL YEARS ENDED MARCH 31,				
	1999	1998	1997	1996	1995
	(In thousands, except for per share amounts)				
Revenues	\$3,149,985	\$3,674,635	\$3,150,850	\$3,244,318	\$3,043,680
Income (Loss) before Extraordinary Item and Cumulative Effect of Accounting Change	\$ 192,081	\$ 215,690	\$ (206,105)	\$ 20,625	\$ 10,876
Net Income (Loss)	\$ 153,362	\$ 215,690	\$ (206,105)	\$ 20,625	\$ 9,111
Basic Earnings (Loss) per Common Share:					
Income (Loss) before Extraordinary Item and Cumulative Effect of Accounting Change	\$ 3.25	\$ 3.74	\$ (3.95)	\$ 0.23	\$ 0.05
Net Income (Loss)	\$ 2.60	\$ 3.74	\$ (3.95)	\$ 0.23	\$ 0.02
Diluted Earnings (Loss) per Common Share:					
Income (Loss) before Extraordinary Item and Cumulative Effect of Accounting Change	\$ 3.16	\$ 3.48	\$ (3.95)	\$ 0.23	\$ 0.05
Net Income (Loss)	\$ 2.53	\$ 3.48	\$ (3.95)	\$ 0.23	\$ 0.02
Total Assets	\$4,305,520	\$4,501,130	\$4,599,482	\$4,387,251	\$4,751,670
Long-Term Debt	\$ 323,774	\$ 598,182	\$ 667,174	\$ 576,256	\$ 579,101
Subsidiary's Redeemable Preferred Stocks	-	155,358	170,983	173,301	179,251
Total	\$ 323,774	\$ 753,540	\$ 838,157	\$ 749,557	\$ 758,352
Cash Dividends per Common Share	\$ 0.20	\$ 0.20	\$ 0.60	\$ 1.00	\$ 1.00

See Note 18 to the consolidated financial statements for significant items included in fiscal year 1999 and 1998 results.

Fiscal year 1997 results include:

- . asset impairment losses of \$54,642,000,
- . gains on asset disposals of \$72,121,000, including the realization of \$12,271,000 of the deferred gain on the sale of major marine vessels to HeereMac,
- . favorable workers' compensation cost and other insurance adjustments of \$21,441,000,
- . a provision of \$72,400,000 for estimated future non-employee products asbestos claims,
- . write-downs of equity investments totaling \$25,875,000,
- . the write-down of certain claims of \$12,506,000 for which recovery was not probable, and
- . a \$10,285,000 provision related to employee severance costs.

Fiscal year 1996 results include:

- . an equity income gain of \$30,612,000 resulting from the sale of two power purchase contracts,
- . favorable workers' compensation cost and other insurance adjustments of \$24,640,000,
- . a gain of \$34,788,000 resulting from the sale of McDermott's interest in 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.

Fiscal year 1995 results include:

- . a \$46,489,000 charge for the decontamination, decommissioning and closing of certain nuclear manufacturing facilities and the closing of a manufacturing facility,
- . a \$14,478,000 charge for the reduction of estimated products liability asbestos claims recoveries from insurers, and
- . a \$26,300,000 benefit for a reduction in accrued interest expense due to the settlement of outstanding tax issues.

See Note 3 to the consolidated financial statements regarding the change to the cost method of accounting for McDermott's investment in the HeereMac joint venture in fiscal year 1997. Equity in income of HeereMac was \$1,083,000 and \$6,244,000 in fiscal years 1996 and 1995, respectively. See Note 3 regarding the April 3, 1998 termination of the McDermott-ETPM joint venture. Fiscal year 1995 includes the cumulative effect of the adoption of Statement of Financial Accounting Standards ("SFAS") No. 112. See Note 11 regarding the uncertainty as to the ultimate loss relating to products liability asbestos claims and the results of the ongoing investigations into possible anti-competitive practices by MII and JRM, and related civil lawsuits.

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

GENERAL

Revenues of the Marine Construction Services segment are largely a function of the level of oil and gas development activity in the world's major hydrocarbon producing regions. Consequently, revenues reflect the variability associated with the timing of significant development projects. As a result of continuing lower oil prices, Marine Construction Services' customers have significantly reduced capital expenditures for exploration and production spending, and backlog has declined over \$850,000,000 since the beginning of the fiscal year. At the current backlog level, management expects revenues in fiscal year 2000 to be as much as forty percent lower than in the current fiscal year, and profitability to be lower because of the volume decline. Economic and political instability in Asia have also had an adverse effect on the timing of exploration and production spending.

Revenues of the Power Generation Systems segment are largely a function of capital spending by the electric power generation industry. In the electric power generation industry, persistent economic growth in the United States has brought the supply of electricity into approximate balance with energy demand, except at periods of peak demand. However, electric power producers have generally chosen to meet these peaks with new combustion turbines rather than with base-load capacity. New emissions requirements have also prompted some customers to place orders for environmental equipment. Demand for electrical power generation industry services and replacement nuclear steam generators continues at strong levels. International markets remain unsettled, and economic and political instability in Asia have caused projects in these emerging markets to be delayed, suspended or cancelled. In the process industry, demand for services remains strong, and the pulp and paper industry has begun to issue inquiries relating to the refurbishment or replacement of existing recovery boilers. Management expects the fiscal year 2000 operating activity of this segment to be about the same as in the current fiscal year.

Revenues of the Government Operations segment are largely a function of capital spending by the U.S. Government. Management does not expect this segment to experience any significant growth because of reductions in the defense budget over the past several years; however, management expects the segment to remain relatively constant since it is the sole-source provider of nuclear fuel assemblies and nuclear reactor components to the U.S. Government. Management expects the fiscal year 2000 operating activity of this segment to be about the same as in the current fiscal year.

Revenues of Industrial Operations are affected by variations in the business cycles in the customers' industries and the overall economy. Legislative issues such as environmental regulations and fluctuations in U.S. Government funding patterns also affect Industrial Operations. Backlog for Industrial Operations has improved significantly from a year ago, primarily because of significant new contracts in engineering and construction. Management expects the fiscal year 2000 operating activity of this segment to be about the same as in the current fiscal year.

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

A significant portion of McDermott's revenues and operating results are derived from its foreign operations. As a result, McDermott's operations and financial results are affected by international factors, such as changes in foreign currency exchange rates. McDermott attempts to minimize its exposure to changes in foreign currency exchange rates by matching 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, McDermott enters into forward exchange contracts to reduce the impact of foreign exchange rate movements on operating results.

Statements made herein which express a belief, expectation or intention, as well as those that are not historical fact, are forward looking. They involve a number of risks and uncertainties that may cause actual results to differ materially from such forward-looking statements. These risks and uncertainties include:

- . decisions about offshore developments to be made by oil and gas companies,
- . the deregulation of the U.S. energy market,
- . governmental regulation and the continued funding of McDermott's contracts with U.S. government agencies,
- . estimates for pending and future non-employee asbestos claims,
- . the highly competitive nature of McDermott's businesses,
- . operating risks associated with the marine construction services business,
- . economic and political conditions in Asia,
- . the results of the ongoing investigation by MII and JRM and the U.S. Department of Justice into possible anti-competitive practices by MII and JRM, and related civil lawsuits, and
- . the results of the ongoing SEC investigation into whether McDermott may have violated U.S. securities laws in connection with such anti-competitive practices and other matters.

FISCAL YEAR 1999 VS FISCAL YEAR 1998

#### Marine Construction Services

Revenues decreased \$575,916,000 to \$1,279,570,000, primarily due to lower volume in Europe as a result of the withdrawal from the traditional European engineering markets and from lower volume in essentially all activities in North America, the Middle East and in worldwide engineering. These decreases were partially offset by higher volume in the Far East.

Segment operating income increased \$19,360,000 to \$126,482,000, primarily due to higher volume and margins in all activities in the Far East and a favorable settlement of contract claims in that area. There were also higher margins in Middle East fabrication operations and lower general and administrative expenses. In addition, prior period results include amortization of OPI goodwill of \$16,318,000. These increases were partially offset by lower volume in essentially all activities in North America and the Middle East and in worldwide engineering. There were also higher net operating expenses and a charge to restructure foreign joint ventures.

Gain (loss) on asset disposals and impairments--net was a gain of \$18,620,000 compared to a loss of \$40,119,000 in the prior period. This was primarily due to gains recognized from the termination of the McDermott-ETPM joint venture and the sale of three Gulf of Mexico vessels, partially offset by impairment losses on fabrication facilities and goodwill associated with worldwide engineering and a Mexican shipyard. The loss in the prior period was primarily due to the write-off of \$262,901,000 of goodwill associated with the acquisition of OPI, partially offset by the \$224,472,000 gain recognized from the termination of the HeereMac joint venture.

Income from investees decreased \$59,566,000 to \$10,670,000, primarily due to a \$61,637,000 distribution of earnings related to the termination of the HeereMac joint venture in the prior period. There were also lower operating results from Brown & Root McDermott Fabricators Limited and a joint venture in Mexico. These decreases were partially offset by a gain on the sale of assets in a Malaysian joint venture. In addition, losses were recorded by McDermott-ETPM West, Inc. in the prior period.

Backlog for the Marine Construction Services segment at March 31, 1999 and 1998 was \$406,183,000 and \$1,266,310,000, respectively. Backlog decreased primarily as a result of lower oil prices. In addition, backlog declined as a result of JRM's withdrawal from traditional engineering markets. Finally, backlog decreased as a result of sluggish economic conditions in the Middle and Far East and the political instability in Asia.

#### Power Generation Systems

Revenues decreased \$76,504,000 to \$1,266,310,000, primarily due to lower revenues from fabrication and erection of fossil fuel steam and environmental control systems, replacement nuclear steam generators and

industrial boilers. These decreases were partially offset by higher revenues from repair and alteration of existing fossil fuel steam systems and plant enhancement projects.

Segment operating income increased \$7,887,000 to \$90,318,000, primarily due to higher volume and margins from repair and alteration of existing fossil fuel steam systems and operation and maintenance contracts. There were also higher margins from industrial boilers, higher volume from plant enhancement projects and lower net operating expenses. These increases were partially offset by lower volume and margins from fabrication and erection of fossil fuel steam and environmental control systems, lower volume from replacement nuclear steam generators and higher general and administrative expenses.

Gain (loss) on asset disposals and impairments--net increased \$10,551,000 to a gain of \$4,465,000 compared to a loss of \$6,086,000 in the prior period. The gain was primarily due to gains recognized from the sale of a domestic manufacturing facility. The loss in the prior period was primarily due to asset impairments in this facility.

Income (loss) from investees decreased \$12,274,000 from income of \$7,541,000 to a loss of \$4,733,000, primarily due to lower operating results from a foreign joint venture located in Egypt and the write-off of notes and accounts receivable from a foreign joint venture located in Turkey.

Backlog for the Power Generation Systems segment at March 31, 1999 and 1998 was \$905,283,000 and \$1,070,351,000, respectively. Backlog has been adversely impacted by suspensions of power generation projects in Southeast Asia and Pakistan. Also, the U.S. market for industrial and utility boilers remains weak. However, the U.S. market for services and replacement nuclear steam generators is expected to remain strong and to make significant contributions to operating income into the future.

#### Government Operations -----

Revenues increased \$12,187,000 to \$382,706,000, primarily due to higher revenues from management and operation contracts for U.S. Government-owned facilities and from nuclear fuel assemblies and reactor components for the U.S. Government. These increases were partially offset by lower revenues from other government operations, commercial operations and commercial nuclear environmental services.

Segment operating income increased \$3,537,000 to \$39,353,000, primarily due to a settlement relating to environmental restoration costs. In addition, there was higher volume from management and operation contracts for U.S. Government-owned facilities and lower general and administrative expenses. These increases were partially offset by lower margins from commercial nuclear environmental services and lower volume from commercial operations and other government operations. In addition, there was an \$8,000,000 settlement of punitive damage claims relating to a civil suit associated with a Pennsylvania facility formerly operated by B&W.

Backlog for the Government Operations segment at March 31, 1999 and 1998 was \$860,981,000 and \$810,230,000, respectively. At March 31, 1999, this segment's backlog with the U.S. Government was \$760,202,000, of which \$12,023,000 had not been funded.

#### Industrial Operations -----

Revenues increased \$89,733,000 to \$427,520,000, primarily due to higher revenues from engineering activities in Canadian operations. This increase was partially offset by lower revenues from domestic engineering and construction activities and from the disposition of a non-core business.

Segment operating income increased \$12,227,000 to \$16,906,000, primarily due to higher volume from engineering activities in Canadian operations and higher margins from air-cooled heat exchangers. There were also losses in a non-core business disposed of in the prior period. These increases were partially offset by higher general and administrative expenses.

Gain (loss) on asset disposals and impairments-net decreased \$128,473,000 from income of \$128,239,000 to a loss of \$234,000. The prior period gains were primarily due to the sale of McDermott's interest in Sakhalin Energy Investment Company Ltd. and Universal Fabricators Incorporated.

Income (loss) from investees decreased by \$5,022,000 from income of \$3,376,000 to a loss of \$1,646,000, primarily due to lower operating results from a domestic joint venture in Colorado and the shutdown of two foreign joint ventures in the former Soviet Union.

Backlog for Industrial Operations at March 31, 1999 and 1998 was \$400,649,000 and \$262,339,000, respectively. Backlog increased because of significant new bookings in Engineering and Construction.

#### Other Unallocated Items

Other unallocated items increased \$45,719,000 to \$51,005,000, primarily due to provisions for estimated future non-employee products liability asbestos claims, higher legal expenses and higher general and administrative expenses. These decreases were partially offset by lower employee benefit expenses.

#### Other Income Statement Items

Interest income increased \$35,430,000 to \$97,965,000, primarily due to increases in investments in government obligations and other debt securities and interest income on domestic tax refunds. These increases were partially offset by a decrease in interest income due to the collection of the promissory note received from the sale of the derrick barges 101 and 102.

Interest expense decreased \$18,192,000 to \$63,262,000, primarily due to changes in debt obligations and interest rates prevailing thereon.

Other-net decreased \$22,052,000 from income of \$3,253,000 to expense of \$18,799,000, primarily due to a loss of \$45,535,000 for insolvent insurers providing coverage for estimated future non-employee products liability asbestos claims, partially offset by a net gain on the settlement and curtailment of postretirement benefit plans. (See Note 6 to the consolidated financial statements.)

The provision for (benefit from) income taxes decreased \$80,920,000 from a provision of \$76,117,000 to a benefit of \$4,803,000, while income before provision for (benefit from) income taxes and extraordinary item decreased \$104,529,000 to \$187,278,000. The decrease in the provision for income taxes was primarily the result of a benefit of \$25,456,000 recorded as a result of the decrease in the valuation allowance for deferred taxes, favorable tax settlements totaling \$30,429,000 of prior years' disputed items in various jurisdictions and a decrease in income. McDermott operates in many different tax jurisdictions. Within these jurisdictions, tax provisions vary because of nominal rates, allowability of deductions, credits and other benefits, and tax bases (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.

#### FISCAL YEAR 1998 VS FISCAL YEAR 1997

##### Marine Construction Services

Revenues increased \$447,017,000 to \$1,855,486,000, primarily due to higher volume in virtually all activities in all operating areas, except in offshore activities in the Far East, engineering activities in the Middle East and engineering and procurement activities in Europe and West Africa.

Segment operating income increased \$96,303,000 to \$107,122,000. Virtually all activities in all operating areas, except the Far East and Engineering, reflected this increase.

Gain (loss) on asset disposals and impairments - net decreased \$69,140,000 from a gain of \$29,021,000 to a loss of \$40,119,000, primarily due to the impairment loss of \$262,901,000 relating to goodwill associated with the

acquisition of OPI. Also contributing to the decrease were: prior year gains from the sale of the derrick barges 15 and 21; participation in a gain from the sale of the derrick barge 100 by the HeereMac joint venture; and the realization of a portion of the deferred gain resulting from the sale of the derrick barges 101 and 102. These decreases were partially offset by the \$224,472,000 gain recognized from the termination of the HeereMac joint venture.

Income (loss) from investees increased \$78,069,000 from a loss of \$7,833,000 to income of \$70,236,000, primarily due to a \$61,637,000 distribution of earnings related to the termination of the HeereMac joint venture. In addition, the loss from the McDermott ETPM-West, Inc. joint venture decreased \$9,248,000 to \$7,584,000 in fiscal year 1998.

See Note 3 to the consolidated financial statements regarding the April 3, 1998 termination of the McDermott-ETPM joint venture. See Note 17 to the consolidated financial statements regarding the sale and intention to exit certain European operations.

#### Power Generation Systems

Revenues increased \$157,291,000 to \$1,142,721,000, primarily due to higher revenues from fabrication and erection of fossil fuel steam and environmental control systems, plant enhancement projects, boiler cleaning equipment, and engineering, procurement and construction of cogeneration plants. These increases were partially offset by lower revenues from replacement nuclear steam generators.

Segment operating income (loss) increased \$117,015,000 from a loss of \$34,584,000 to income of \$82,431,000, primarily due to higher volume and margins from fabrication and erection of fossil fuel steam and environmental control systems, plant enhancement projects, boiler cleaning equipment and engineering, procurement and construction of cogeneration plants. In addition, there were higher margins from replacement nuclear steam generators and replacement parts and lower selling and general and administrative expenses.

Loss on asset disposals and impairments - net decreased \$13,119,000 to \$6,086,000, primarily due to the write-down of an equity investment in a domestic cogeneration joint venture and an asset impairment loss on a domestic manufacturing facility in the prior year.

Income (loss) from investees increased \$7,888,000 from a loss of \$347,000 to income of \$7,541,000. This represents the results of approximately twelve joint ventures. The increase is primarily due to the favorable operating results from three foreign joint ventures and a provision for a loss on a Canadian joint venture in the prior year. This increase was partially offset by a favorable termination agreement of a domestic joint venture in the prior year.

#### Government Operations

Revenues decreased \$2,532,000 to \$370,519,000, primarily due to lower revenues from nuclear fuel assemblies and reactor components for the U.S. Government, commercial nuclear environmental services and other government-related operations. These decreases were partially offset by higher revenues from management and operation contracts for U.S. Government owned facilities.

Segment operating income increased \$3,358,000 to \$35,816,000, primarily due to higher volume from management and operation contracts for U.S. Government-owned facilities and higher margins from nuclear fuel assemblies and reactor components for the U.S. Government and other government-related operations. These increases were partially offset by lower volume and margins from commercial nuclear environmental services and higher operating expenses.

#### Industrial Operations

Revenues decreased \$120,329,000 to \$337,787,000, primarily due to lower revenues from engineering and construction activities in Canadian operations and the disposition of non-core businesses (domestic shipyard

and ordnance operations). These decreases were partially offset by higher revenues from air-cooled heat exchangers and plant maintenance activities in Canadian operations.

Segment operating income (loss) increased \$35,320,000 from a loss of \$30,641,000 to income of \$4,679,000. This was primarily due to cost overruns on an engineering and construction contract in the prior period, higher volume on air-cooled heat exchangers, lower selling and general and administrative expenses and prior year losses in non-core businesses (domestic shipyard and ordnance operations).

Gain (loss) on asset disposals and impairments-net increased \$140,097,000 from a loss of \$11,858,000 to a gain of \$128,239,000, primarily due to the sale of McDermott's interest in Sakhalin Energy Investment Company Ltd. and Universal Fabricators Incorporated in the current year and an asset impairment in the prior year.

Income from investees increased \$2,639,000 to \$3,376,000, primarily due to higher operating results from two foreign joint ventures.

#### Other Unallocated Items -----

Other Unallocated Items decreased \$67,096,000 to expense of \$5,286,000, primarily due to provisions for estimated future non-employee products liability asbestos claims and contract claims in the prior year.

#### General Corporate Expenses - Net -----

General Corporate Expenses - Net decreased \$10,205,000 to \$37,251,000, primarily due to staff reductions, other economy measures, and certain one-time costs incurred in the prior period, which was partially offset by gains on the sale of certain corporate aircraft in the prior period.

#### Other Income Statement Items -----

Interest income increased \$15,793,000 to \$62,535,000, primarily due to increases in investments in government obligations and other debt securities.

Interest expense decreased \$13,646,000 to \$81,454,000, primarily due to changes in debt obligations and interest rates prevailing thereon.

Minority interest expense increased \$42,422,000 to \$47,984,000, primarily due to minority shareholder participation in the improved operating results of JRM and MSCL.

Other-net increased \$22,785,000 from expense of \$19,532,000 to income of \$3,253,000. This increase was primarily due to bank fees and discounts on the sale of certain accounts receivable and a loss of \$19,446,000 for insolvent insurers providing coverage for estimated future non-employee asbestos claims, both in the prior year. These increases were partially offset by income in the prior year for certain reimbursed financing costs.

The provision for (benefit from) income taxes increased \$90,709,000 from a benefit of \$14,592,000 to a provision of \$76,117,000, while income before provision for income taxes increased \$512,504,000 from a loss of \$220,697,000 to income of \$291,807,000. The increase in income taxes is primarily due to an increase in income. In addition, McDermott operates in many different tax jurisdictions. Within these jurisdictions, tax provisions vary because of nominal rates, allowability of deductions, credits and other benefits, and 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 rate.

#### EFFECT OF INFLATION AND CHANGING PRICES

McDermott'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.

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

#### LIQUIDITY AND CAPITAL RESOURCES

During fiscal year 1999, McDermott's cash and cash equivalents decreased \$96,373,000 to \$181,503,000 and total debt decreased \$399,582,000 to \$354,900,000, primarily due to a reduction in short-term borrowings of \$30,954,000 and repayment of \$326,921,000 in long-term debt. During this period, McDermott provided cash of \$300,285,000 from operating activities, and received cash proceeds of \$176,290,000 from the net sales and maturities of investments, and \$145,161,000 from asset disposals, including \$95,546,000 from the termination of the McDermott-ETPM joint venture. McDermott used cash of \$272,061,000 for the acquisition of preferred and common stock, \$78,787,000 for additions to property, plant and equipment and \$13,810,000 for dividends on MII's common and preferred stock.

Pursuant to agreements with the majority of its principal insurers, McDermott negotiates and settles products liability asbestos claims from non-employees and bills these amounts to the appropriate insurers. Reimbursement of such claims is subject to varying insurance limits based upon the year involved. Moreover, as a result of collection delays inherent in this process and the effect of agreed payment schedules with specific insurers, reimbursement is usually delayed for three months or more. The average amount of these claims (historical average of approximately \$7,200 per claim over the last three years) has continued to rise. Claims paid during the fiscal year ended March 31, 1999 were \$227,176,000, of which \$175,457,000 has been recovered or is due from insurers. At March 31, 1999, receivables of \$85,409,000 were due from insurers for reimbursement of settled claims. Of the \$85,409,000 due from insurers, \$37,287,000 had been included in the pool of qualified receivables sold pursuant to a receivables purchase and sale agreement (see below). The collection delays, and the amount of claims paid for which insurance recovery is not probable, have not had a material adverse effect upon McDermott's liquidity.

At March 31, 1999, the estimated liability for pending and future non-employee products liability asbestos claims was \$1,562,363,000 and estimated insurance recoveries were \$1,366,863,000. Management's expectation is that new claims will conclude within the next thirteen years, that there will be a significant decline in new claims received after four years, and that the average cost per claim will continue to increase only moderately. McDermott's estimates of future asbestos products liability and probable insurance recoveries are based on prior history and management's best estimate of cost based on all available information. However, future costs to settle claims, as well as the number of claims, could be adversely affected by changes in judicial rulings and influences beyond McDermott's control. Accordingly, changes in the estimates of future asbestos products liability and insurance recoverables and differences between the proportion of any additional asbestos products liabilities covered by insurance, and that experienced in the past could result in material adjustments to the results of operations for any fiscal quarter or year, and the ultimate loss may differ materially from amounts provided in the consolidated financial statements.

Expenditures for property, plant and equipment increased \$33,697,000 to \$78,787,000 in fiscal year 1999. The majority of fiscal year 1999 expenditures were to maintain, replace and upgrade existing facilities and equipment. McDermott has budgeted capital expenditures of approximately \$38,236,000 during fiscal 2000.

At March 31, 1998, McDermott had \$82,783,000 in secured borrowings pursuant to a receivables purchase and sale agreement between B&W and certain of its affiliates and subsidiaries and a U.S. Bank. Through July 31, 1998, \$25,854,000 was repaid under the agreement. Effective July 31, 1998, the receivables purchase and sale agreement was amended and restated to provide for, among other things, the inclusion of certain insurance recoverables in the pool of qualified accounts receivable. It also provided for sales treatment as opposed to secured financing treatment for this arrangement under Financial Accounting Standards Board ("FASB")

Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." As a result, \$56,929,000 was removed from notes payable and current maturities of long-term debt on the balance sheet. This amended and restated agreement was terminated on April 30, 1999.

On May 7, 1999, MII and JRM entered into a merger agreement pursuant to which MII initiated a tender offer for those shares of JRM that it did not already own for \$35.62 per share in cash. Under the merger agreement, any shares not purchased in the tender offer will be acquired for the same price in cash in a second-step merger. MII estimates that it will require approximately \$560,000,000 to consummate the tender offer and second-step merger and to pay related fees and expenses. MII expects to obtain the funds from cash on hand and from a new \$525,000,000 senior secured term loan facility with Citibank, N.A. The facility will terminate and all borrowings thereunder will mature upon the earlier of five business days after the consummation of the second merger or September 30, 1999. When the facility terminates, JRM will declare and pay a dividend and/or loan to MII such amounts that, together with MII's available cash, will be used to repay all outstanding loans under the facility. Citibank, N.A. may act either as sole lender under the facility or syndicate all or a portion of the facility to a group of financial institutions. The facility contains customary representations, warranties, covenants and events of default. The facility also includes financial covenants that:

- . require MII to maintain a minimum consolidated tangible net worth of not less than \$250,000,000,
- . limit MII's ability to pay dividends, and,
- . require MII, JRM and certain other subsidiaries to maintain cash, cash equivalents and investments in debt securities of at least \$575,000,000 at all times.

The facility is secured by a first priority pledge of all JRM capital stock and securities convertible into JRM capital stock held by or acquired by MII or any of its subsidiaries.

At March 31, 1999, McDermott had total cash, cash equivalents and investments of \$1,088,402,000. McDermott's investment portfolio consists primarily of government obligations and other investments in debt securities. The fair value of short and long-term investments at March 31, 1999 was \$921,070,000. At March 31, 1999, approximately \$48,760,000 fair value of these obligations were pledged to secure a letter of credit in connection with certain reinsurance agreements. Management anticipates that approximately \$560,000,000 of this investment portfolio will be used to fund the tender offer, second-step merger and related fees and expenses referred to above.

At March 31, 1999 and 1998, McDermott had available various uncommitted short-term lines of credit from banks totaling \$87,578,000 and \$127,061,000, respectively. Borrowings against these lines of credit at March 31, 1998 were \$5,100,000. There were no borrowings against these lines at March 31, 1999. At March 31, 1998, B&W was a party to a revolving credit facility under which there were no borrowings. In July 1998, B&W terminated its existing credit facility and, jointly and severally with BWICO and BWXT, entered into a new \$200,000,000 three-year, unsecured credit agreement (the "BWICO Credit Agreement") with a group of banks. Borrowings by the three companies against the BWICO Credit Agreement cannot exceed an aggregate amount of \$50,000,000. The remaining \$150,000,000 is reserved for the issuance of letters of credit. In connection with satisfying a condition to borrowing or issuing letters of credit under the BWICO Credit Agreement, MI made a \$15,000,000 capital contribution to BWICO in August 1998. At March 31, 1999, there were no borrowings under the BWICO Credit Agreement.

At March 31, 1998, JRM and certain of its subsidiaries were parties to a revolving credit facility under which there were no borrowings. In June 1998, JRM and such subsidiaries entered into a new \$200,000,000 three-year, unsecured credit agreement (the "JRM Credit Agreement") with a group of banks. Borrowings against the JRM Credit Agreement cannot exceed \$50,000,000. The remaining \$150,000,000 is reserved for the issuance of letters of credit. At March 31, 1999, there were no borrowings under the JRM Credit Agreement. Management does not anticipate JRM will need to borrow funds under the JRM Credit Agreement during fiscal year 2000. Subsequent to year-end, JRM elected to reduce the commitments on the JRM Credit Agreement from \$200,000,000 to \$100,000,000.

MI and JRM are restricted, as a result of covenants in debt instruments, in their ability to transfer funds to MII and certain of its subsidiaries through cash dividends or through unsecured loans or investments. At March 31, 1999, substantially all of the net assets of MI were subject to such restrictions. At March 31, 1999, JRM could make unsecured loans to or investments in MII of approximately \$75,000,000 and pay dividends to MII of approximately \$146,300,000. In connection with the tender offer and merger described above, an amendment to the JRM Credit Agreement was entered into that permits JRM to loan to MII such amounts as may be required for MII to repay the amounts outstanding under the \$525,000,000 senior secured term loan facility with Citibank N.A.

On March 5, 1999, JRM consummated an offer to purchase all of its outstanding 9.375% Senior Subordinated Notes at a purchase price of 113.046% of their principal amount (\$1,130.46 per \$1,000 principal amount), plus accrued and unpaid interest. On that date, JRM purchased \$248,575,000 in principal amount of the notes for a total purchase price of \$284,564,000, including interest of \$3,560,000. As a result, JRM recorded an extraordinary loss of \$38,719,000. In connection with the purchase of the notes, JRM received consents to certain amendments that amended or eliminated certain restrictive covenants and other provisions contained in the indenture relating to the notes. Specifically, the covenants contained in the indenture that restricted JRM's ability to pay dividends, repurchase or redeem its capital stock, or to transfer funds through unsecured loans to or investments in MII were eliminated.

Working capital decreased \$26,475,000 from \$135,430,000 at March 31, 1998 to \$108,955,000 at March 31, 1999. During the next fiscal year, McDermott's management expects to obtain funds to meet capital expenditure, working capital and debt maturity requirements from operating activities, cash and cash equivalents, and short-term borrowings. Leasing agreements for equipment, which are short-term in nature, are not expected to impact McDermott's liquidity or capital resources.

JRM's joint ventures are largely financed through their own resources, including, in some cases, stand-alone borrowing arrangements. In some instances, McDermott provides guarantees on behalf of its joint ventures. (See Note 11 to the consolidated financial statements.)

At March 31, 1999, the ratio of long-term debt to total stockholders' equity was 0.41 as compared with 0.88 at March 31, 1998.

On April 6, 1998, MII called all of the outstanding shares of its Series C Cumulative Convertible Preferred Stock for redemption on April 21, 1998. At the close of business on the redemption date, all 2,875,000 preferred shares then outstanding were converted into 4,077,890 common shares.

On July 17, 1998, MI redeemed all of its 2,152,766 outstanding shares of Series B \$2.60 Cumulative Preferred Stock for \$31.25, plus \$0.1156 in accrued but unpaid dividends, per share. MII made a \$68,000,000 capital contribution to MI to cover the cost of the redemption.

On September 11, 1998, MI redeemed 2,795,428 of its outstanding shares of Series A \$2.20 Cumulative Convertible Preferred Stock ("Series A Preferred Stock") for \$31.25, plus \$0.43 in accrued but unpaid dividends, per share. The remaining 23,251 outstanding shares of its Series A Preferred Stock were converted into MII common stock at a conversion ratio of one share of MII common stock, plus \$0.10, for each preferred share. MII made a \$90,000,000 capital contribution to MI to cover the cost of the redemption and conversion.

MII's quarterly dividends are \$0.05 per share on its Common Stock. Prior to redemption, MI's quarterly dividends were \$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.

During fiscal year 1998, MII's Board of Directors approved the repurchase of up to two million shares of its common stock from time to time on the open market or through negotiated transactions, depending on the availability of cash and market conditions. The purpose of the repurchases was to offset dilution created by the

issuance of shares pursuant to MII's stock compensation and thrift plans. MII completed its two million share repurchase program in August 1998. During the fiscal year ended March 31, 1999, MII repurchased 1,900,000 shares of its common stock at an average share price of \$31.10.

During fiscal year 1998, JRM's Board of Directors approved the repurchase of up to two million shares of its common stock from time to time on the open market or through negotiated transactions, depending on the availability of cash and market conditions. The purpose of the repurchases was to offset dilution created by the issuance of shares pursuant to JRM's stock compensation and thrift plans. JRM repurchased 362,500 shares at an average share price of \$37.31 during fiscal year 1998. During fiscal year 1999, JRM's Board of Directors authorized the repurchase of up to an additional one million shares of its common stock. JRM repurchased another 1,837,700 shares of its common stock at an average share price of \$31.67 through October 8, 1998, at which time JRM ceased all further share repurchases. At such time, JRM had repurchased 2,200,200 of the three million shares of its common stock authorized to be repurchased.

At March 31, 1999, MII has provided a valuation allowance for deferred tax assets of \$39,961,000 which cannot be realized through carrybacks and future reversals of existing taxable temporary differences. Management believes that remaining deferred tax assets are realizable through carrybacks and future reversals of existing taxable temporary differences, future taxable income, and, if necessary, the implementation of tax planning strategies involving sales of appreciated assets. Uncertainties that affect the ultimate realization of deferred tax assets are the risk of incurring losses in the future and the possibility of declines in value of appreciated assets involved in identified tax planning strategies. These factors have been considered in determining the valuation allowance. Management will continue to assess the adequacy of the valuation allowance on a quarterly basis.

#### IMPACT OF THE YEAR 2000

The McDermott company-wide Year 2000 Project is proceeding on schedule. The project addresses information technology components (hardware and software) in internal business systems and infrastructure and the embedded systems in offices, plants and products delivered to customers. In addition, an analysis of critical suppliers is being performed to ensure the supply of materials and services that are strategic to business continuity. The Year 2000 Project began company-wide with a planning phase during the latter part of 1996 followed by a company-wide assessment, which was completed in early 1997. Based upon the results of the assessment and the diverse nature of McDermott's product lines, strategies for business systems were developed that fit the requirements of each of the McDermott business units. Some entities are replacing legacy systems with commercial enterprise systems, others are employing a combination of proprietary and third-party client/server systems, while a third strategy is based primarily upon remediation of legacy applications. Embedded systems and the critical supplier analysis are being addressed with a common methodology across McDermott.

A consistent work breakdown structure for the project is being employed throughout McDermott:

- . Business Applications and IT Infrastructure ("IT Systems")
- . Facilities (office buildings)
- . Embedded Systems (in plants and construction equipment)
- . Customer Products (embedded systems in customer products)
- . Critical Suppliers

The general phases of the project common to all of the above functions are:

- (1) establish priorities,
- (2) inventory items with potential Year 2000 impact,
- (3) assess and create a solution strategy for those items determined to be material to McDermott,
- (4) implement solutions defined for those items assessed to have Year 2000 impact, and
- (5) test and validate solutions.

At March 31, 1999, the inventory, prioritization and assessment of the critical IT Systems' components were complete. The remediation and replacement tasks are in progress with approximately 90% of the work completed. The Facilities and Embedded Systems phases of the project were 90% complete and on schedule with testing and replacement of components showing significant progress during the quarter. The analysis of Critical Suppliers includes the determination of the compliance status of the suppliers' businesses as well as the products they produce. The majority of the company sites have completed this analysis and the balance are near completion. The Customer Products phase of the project is essentially complete with minor work outstanding at a few of the company's smaller business units.

All Year 2000 solutions for the critical IT Systems, Facilities and Embedded Systems that support McDermott's engineering, manufacturing and construction operations and the corporate functions are scheduled to be substantially completed by June 30, 1999. The analysis and the compliance tasks for Customer Products and Critical Suppliers are on schedule and are forecast to be completed by June 30, 1999.

As an alternative to the remediation of the legacy payroll systems, McDermott has elected to outsource its payroll function. The transition to the payroll service provider will be completed by October 31, 1999.

McDermott does not expect that the cost associated with the modifications to critical systems and other compliance activities will have a material impact on its consolidated financial condition, cash flows or results of operations. The cost of the Year 2000 Project is estimated at \$38,000,000 and is being funded through operating cash flows. Of the total project cost, \$9,000,000 is attributable to the purchase of hardware and software, which will be capitalized, and the remaining \$29,000,000 will be expensed as incurred. Expenditures to date include \$7,000,000 of capital and \$21,000,000 of expense. The differences between the cost incurred to date and the project completion percentage is due to certain project milestones with subcontractors for work being performed for the corporate office. Excluding the corporate office, approximately 90% of the total anticipated Year 2000 project cost has been incurred through March 31, 1999.

McDermott's Year 2000 compliance is also dependent upon the Year 2000 readiness of external agents and third-party suppliers on a timely basis. The failure of McDermott or its agents or suppliers to achieve Year 2000 compliance could result in, among other things, plant production interruptions, delays in the delivery of products, delays in construction completions, delays in the receipt of supplies, invoice and collection errors, and inaccurate inventories. These consequences could have a material adverse impact on McDermott's results of operations, financial condition and cash flow if it is unable to conduct its businesses in the ordinary course.

McDermott is taking steps to mitigate the risk of a material impact of Year 2000 on its operations with the development of contingency plans. These plans focus on the mission critical processes and third party dependencies that could be at risk with the century date change. Contingency plans are in the early stages of development and are being prioritized consistent with the requirements of each operating location. All contingency planning activities are scheduled to be completed by September 30, 1999.

Although McDermott is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on its results of operations, McDermott believes that its Year 2000 Project, including contingency plans, should significantly reduce the adverse effect that any such disruptions may have.

Statements made herein which express a belief, expectation or intention, as well as those which are not historical fact, are forward looking. They involve a number of risks and uncertainties which may cause actual results to differ materially from such forward-looking statements. The dates on which McDermott believes the Year 2000 Project will be completed are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third-party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved or that there will not be a delay in, or increased costs associated with, the implementation of the Year 2000 Project. Specific factors that might cause differences between the estimates and actual results include, but are not limited to:

- . the availability and cost of personnel trained in these areas,
- . the ability to locate and correct all relevant computer code,
- . timely responses to and corrections by third parties and suppliers,
- . the ability to implement interfaces between the new systems and the systems not being replaced, and,
- . similar uncertainties.

The general uncertainty inherent in the Year 2000 problem results in part from the uncertainty of the Year 2000 readiness of third parties and the interconnection of global businesses. Due to this general uncertainty, McDermott cannot ensure its ability to timely and cost-effectively resolve problems associated with the Year 2000 issue that may affect its operations and business or expose it to third-party liability.

#### NEW ACCOUNTING STANDARDS

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-Up Activities," which is effective for fiscal years beginning after December 15, 1998. SOP 98-5 provides guidance on accounting for the costs of start-up activities and requires that entities expense start-up costs and organization costs as they are incurred. McDermott's adoption of SOP 98-5 will not have a material impact on its consolidated financial position or results of operations.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for fiscal years beginning after June 15, 1999. SFAS No. 133 will require McDermott to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. McDermott has not yet determined what effect the adoption of SFAS No. 133 will have on its consolidated financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

McDermott's exposure to market risk from changes in interest rates relates primarily to its investment portfolio, which is primarily comprised of investments in U.S. government obligations and other highly liquid debt securities. McDermott is averse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. All of McDermott's investments in debt securities are classified as available-for-sale.

McDermott has no material future earnings or cash flow exposures from changes in interest rates on its long-term debt obligations, as substantially all of these obligations have fixed interest rates. McDermott has exposure to changes in interest rates on its short-term uncommitted lines of credit and its unsecured and committed revolving credit facilities (see Liquidity and Capital Resources). At March 31, 1999, McDermott had no borrowings against these short-term facilities.

McDermott has operations in many foreign locations and as a result, its financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in those foreign markets. In order to manage the risks associated with foreign currency exchange fluctuations, McDermott regularly hedges such risks with foreign currency forward exchange contracts (principally to hedge its Canadian dollar exposure). McDermott does not enter into speculative forward exchange contracts.

The table below provides information about McDermott's market sensitive financial instruments and constitutes a forward-looking statement.

Principal Amount by Expected Maturity  
(In thousands)

	2000	Fiscal Years Ending March 31,				2004	Thereafter	Total	Fair Value at 3/31/99
	-----	2001	2002	2003	-----	-----	-----	-----	
Investments	\$366,304	\$294,400	\$118,960	\$67,000	\$75,540	-	\$922,204	\$921,070	
Average Interest Rate	4.91%	5.48%	6.10%	5.47%	5.13%	-			
Long-term Debt-									
Fixed Rate	\$ 30,640	-	\$225,000	-	\$ 9,500	\$84,175	\$349,315	\$360,997	
Average Interest Rate	8.22%	-	9.375%	-	9.00%	8.20%			
Long-term Debt-									
Variable Rate	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 4,652	\$ 4,777	\$ 4,777	
Average Interest Rate	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%			

Contract Amount by Expected Maturity  
(In thousands)

	Fiscal Years Ending March 31, 2000	2001	2002	Total	Fair Value at 3/31/99
	-----	-----	-----	-----	-----
Forward Contracts to Purchase Foreign Currencies for U.S. Dollars:					
Canadian Dollar	\$49,955	\$9,292	\$31,041	\$90,288	\$86,426
Average Contractual Exchange Rate	1.442	1.421	1.415		
Japanese Yen	\$ 3,260	-	-	\$ 3,260	\$ 3,193
Average Contractual Exchange Rate	116.7				
Danish Kroner	\$ 153	-	-	\$ 153	\$ 145
Average Contractual Exchange Rate	6.557				
Forward Contracts to Sell Foreign Currencies for U.S. Dollars:					
Canadian Dollar	\$14,880	-	-	\$14,880	\$13,920
Average Contractual Exchange Rate	1.402				
French Franc	\$ 720	\$ 604	\$ 2,423	\$ 3,747	\$ 3,691
Average Contractual Exchange Rate	5.884	5.794	5.745		

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
COMPANY REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

McDermott 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 fraud, errors or illegal acts may nevertheless occur. McDermott 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 believes that its internal control structure provides reasonable assurance that fraud, errors or illegal acts that could be material to the financial statements are prevented or would be detected.

McDermott's accompanying consolidated financial statements have been audited by its independent accountants, who provide McDermott with advice on the application of U.S. generally accepted accounting principles to McDermott's business and also provide an objective assessment of the degree to which McDermott 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 reports of the independent accountants appear elsewhere herein.

The Board of Directors pursues its responsibility for McDermott's consolidated financial statements through its Audit Committee, which is composed solely of directors who are not officers or employees of McDermott. The Audit Committee meets periodically with the independent accountants 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 accountants for McDermott to the Board of Directors, who in turn submit the engagement to the stockholders for their approval. The independent accountants have free access to the Audit Committee.

May 14, 1999

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of  
McDermott International, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income (loss), comprehensive income (loss), stockholders' equity, and cash flows present fairly, in all material respects, the financial position of McDermott International, Inc. and subsidiaries at March 31, 1999, and the results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles. 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 audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which require that we plan and perform an 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP  
New Orleans, Louisiana  
May 14, 1999

REPORT OF INDEPENDENT AUDITORS  
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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, 1998, and the related consolidated statements of income (loss), comprehensive income (loss) stockholders' equity and cash flows for each of the two years in the period ended March 31, 1998. 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, 1998, and the consolidated results of its operations and its cash flows for each of the two years in the period ended March 31, 1998, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

New Orleans, Louisiana  
May 19, 1998

MCDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED BALANCE SHEET  
MARCH 31, 1999 and 1998

ASSETS

	1999	1998
	(In thousands)	
Current Assets:		
Cash and cash equivalents	\$ 181,503	\$ 277,876
Investments	55,646	135
Accounts receivable trade, net	281,667	550,552
Accounts receivable - unconsolidated affiliates	165,154	52,351
Accounts receivable - other	125,631	139,864
Environmental and products liabilities recoverable - current	228,738	143,588
Contracts in progress	179,310	239,548
Inventories	52,656	63,342
Deferred income taxes	73,364	84,036
Other current assets	31,697	45,264
Total Current Assets	1,375,366	1,596,556
Property, Plant and Equipment:		
Land	22,670	29,034
Buildings	197,902	205,284
Machinery and equipment	1,198,381	1,457,630
Property under construction	41,686	23,404
Less accumulated depreciation	1,460,639	1,715,352
Net Property, Plant and Equipment	433,961	533,694
Investments:		
Government obligations	473,072	519,443
Other investments	378,181	553,913
Total Investments	851,253	1,073,356
Environmental and Products Liabilities Recoverable	1,167,113	604,870
Excess of Cost over Fair Value of Net Assets of Purchased Businesses Less Accumulated Amortization of \$104,444,000 at March 31, 1999 and \$107,814,000 at March 31, 1998		
	125,436	127,077
Prepaid Pension Costs	130,437	328,583
Other Assets	221,954	236,994
TOTAL	\$4,305,520	\$4,501,130

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1999	1998
(In thousands)		
Current Liabilities:		
Notes payable and current maturities of long-term debt	\$ 31,126	\$ 156,300
Accounts payable	198,500	301,988
Environmental and products liabilities - current	259,836	181,234
Accrued employee benefits	132,105	146,839
Accrued liabilities - other	318,631	285,834
Accrued contract cost	51,619	89,321
Advance billings on contracts	240,380	268,764
U.S. and foreign income taxes payable	34,214	30,846
Total Current Liabilities	1,266,411	1,461,126
Long-Term Debt	323,774	598,182
Accumulated Postretirement Benefit Obligation	128,188	393,616
Environmental and Products Liabilities	1,334,096	751,620
Other Liabilities	263,950	271,489
Commitments and Contingencies.		
Minority Interest:		
Subsidiary's redeemable preferred stocks	-	155,358
Other minority interest	195,367	189,966
Total Minority Interest	195,367	345,324
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	-	2,875
Common stock, par value \$1.00 per share, authorized 150,000,000 shares; issued 61,147,775 at March 31, 1999 and 56,607,861 at March 31, 1998	61,148	56,608
Capital in excess of par value	1,028,393	1,012,338
Accumulated deficit	(200,432)	(341,916)
Treasury stock at cost, 2,000,614 shares at March 31, 1999 and 100,614 shares at March 31, 1998	(62,731)	(3,575)
Accumulated other comprehensive loss	(32,644)	(46,557)
Total Stockholders' Equity	793,734	679,773
TOTAL	\$4,305,520	\$4,501,130

MCDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENT OF INCOME (LOSS)  
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1999

	1999	1998	1997
	(In thousands, except per share data)		
Revenues	\$3,149,985	\$3,674,635	\$3,150,850
Costs and Expenses:			
Cost of operations (excluding depreciation and amortization)	2,635,229	3,117,279	2,878,972
Depreciation and amortization	101,390	142,301	151,581
Selling, general and administrative expenses	222,239	224,045	262,918
	2,958,858	3,483,625	3,293,471
Gain (Loss) on Asset Disposals and Impairments - Net	17,910	79,065	(526)
Operating Income (Loss) before Income (Loss) from Investees	209,037	270,075	(143,147)
Income (Loss) from Investees	8,379	85,382	(4,098)
Operating Income (Loss)	217,416	355,457	(147,245)
Other Income (Expense):			
Interest income	97,965	62,535	46,742
Interest expense	(63,262)	(81,454)	(95,100)
Minority interest	(46,042)	(47,984)	(5,562)
Other-net	(18,799)	3,253	(19,532)
	(30,138)	(63,650)	(73,452)
Income (Loss) before Provision for (Benefit from) Income Taxes and Extraordinary Item	187,278	291,807	(220,697)
Provision for (Benefit from) Income Taxes	(4,803)	76,117	(14,592)
Income (Loss) before Extraordinary Item	192,081	215,690	(206,105)
Extraordinary Item	(38,719)	-	-
Net Income (Loss)	\$153,362	\$215,690	\$ (206,105)
Net Income (Loss) Applicable to Common Stockholders (after Preferred Stock Dividends)	\$153,362	\$207,424	\$ (214,371)
Earnings (Loss) per Common Share:			
Basic:			
Income (Loss) before Extraordinary Item	\$ 3.25	\$ 3.74	\$ (3.95)
Net Income (Loss)	\$ 2.60	\$ 3.74	\$ (3.95)
Diluted:			
Income (Loss) before Extraordinary Item	\$ 3.16	\$ 3.48	\$ (3.95)
Net Income (Loss)	\$ 2.53	\$ 3.48	\$ (3.95)
Cash Dividends:			
Per Common Share	\$ 0.20	\$ 0.20	\$ 0.60
Per Preferred Share	\$ -	\$ 2.88	\$ 2.88

See accompanying notes to consolidated financial statements.

MCDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)  
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1999

	1999 ----	1998 ----	1997 ----
		(In thousands)	
Net Income (Loss)	\$ 153,362	\$215,690	\$ (206,105)
-----			
Other Comprehensive Income (Loss):			
Currency translation adjustments:			
Foreign currency translation adjustments	(856)		
Foreign currency translation adjustments, net of reclassification adjustments		(3,689)	(11,271)
Reclassification adjustments for sales of investments in foreign entities in fiscal year 1999	15,596		
Minimum pension liability adjustment, net of taxes of \$791,000, \$1,547,000 and \$480,000 in fiscal years 1999, 1998 and 1997, respectively	(1,058)	(2,582)	(720)
Unrealized gains (losses) on investments:			
Unrealized gains (losses) arising during the period, net of taxes of \$3,000 in fiscal year 1999	1,887		
Unrealized gains (losses), net of reclassification adjustments arising during the period, net of taxes of \$360,000 and \$85,000 in fiscal years 1998 and 1997, respectively		4,807	(2,257)
Reclassification adjustment for (gains) losses included in net income, net of taxes of \$11,000 in fiscal year 1999	(1,656)		
-----			
Other Comprehensive Income (Loss)	13,913	(1,464)	(14,248)
-----			
Comprehensive Income (Loss)	\$ 167,275	\$214,226	\$ (220,353)
-----			

See accompanying notes to consolidated financial statements.

MCDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1999  
(In thousands, except for share amounts)

	Preferred Stock Series C		Common Stock	
	Shares	Par Value	Shares	Par Value
Balance March 31, 1996	2,875,000	\$ 2,875	54,435,823	\$ 54,436
Net loss	-	-	-	-
Minimum pension liability	-	-	-	-
Loss on investments	-	-	-	-
Translation adjustments	-	-	-	-
Common stock dividends	-	-	-	-
Preferred stock dividends	-	-	-	-
JRM equity transactions	-	-	-	-
Exercise of stock options	-	-	22,779	23
Tax benefit on stock options	-	-	-	-
Restricted stock purchases - net	-	-	171,290	171
Awards of common stock	-	-	975	1
Redemption of preferred shares	-	-	-	-
Contributions to thrift plan	-	-	306,089	306
Deferred career executive stock plan expense	-	-	-	-
Balance March 31, 1997	2,875,000	2,875	54,936,956	54,937
Net income	-	-	-	-
Minimum pension liability	-	-	-	-
Gain on investments	-	-	-	-
Translation adjustments	-	-	-	-
Common stock dividends	-	-	-	-
Preferred stock dividends	-	-	-	-
JRM equity transactions	-	-	-	-
Exercise of stock options	-	-	1,450,593	1,451
Tax benefit on stock options	-	-	-	-
Restricted stock purchases - net	-	-	90	-
Redemption of preferred shares	-	-	100	-
Contributions to thrift plan	-	-	191,058	191
Purchase of treasury shares	-	-	-	-
Deferred career executive stock plan expense	-	-	-	-
Termination of directors' retirement plan	-	-	32,040	32
Cancellation of shares	-	-	(2,976)	(3)
Balance March 31, 1998	2,875,000	2,875	56,607,861	56,608
Net income	-	-	-	-
Minimum pension liability	-	-	-	-
Loss on investments	-	-	-	-
Translation adjustments	-	-	-	-
Common stock dividends	-	-	-	-
JRM equity transactions	-	-	-	-
Exercise of stock options	-	-	188,768	189
Tax benefit on stock options	-	-	-	-
Restricted stock purchases - net	-	-	2,025	2
Directors' stock plan	-	-	18,735	19
Redemption of preferred shares	-	-	23,251	23
Conversion of Series C Preferred stock	(2,875,000)	(2,875)	4,077,890	4,078
Contributions to thrift plan	-	-	229,245	229
Purchase of treasury shares	-	-	-	-
Deferred career executive stock plan expense	-	-	-	-
Balance March 31, 1999	-	\$ -	61,147,775	\$ 61,148

See accompanying notes to the consolidated financial statements.

Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
\$949,022	\$ (290,968)	\$ (30,845)	\$ -	\$ 684,520
-	(206,105)	-	-	(206,105)
-	-	(720)	-	(720)
-	-	(2,257)	-	(2,257)
-	-	(11,271)	-	(11,271)
-	(32,824)	-	-	(32,824)
-	(8,266)	-	-	(8,266)
1,339	-	-	-	1,339
371	-	-	-	394
41	-	-	-	41
(5)	-	-	-	166
20	-	-	-	21
68	-	-	-	68
5,724	-	-	-	6,030
5,865	-	-	-	5,865
962,445	(538,163)	(45,093)	-	437,001
-	215,690	-	-	215,690
-	-	(2,582)	-	(2,582)
-	-	4,807	-	4,807
-	-	(3,689)	-	(3,689)
-	(11,177)	-	-	(11,177)
-	(8,266)	-	-	(8,266)
3,431	-	-	-	3,431
30,005	-	-	-	31,456
4,916	-	-	-	4,916
(24)	-	-	-	(24)
221	-	-	-	221
5,795	-	-	-	5,986
-	-	-	(3,662)	(3,662)
4,576	-	-	-	4,576
1,057	-	-	-	1,089
(84)	-	-	87	-
1,012,338	(341,916)	(46,557)	(3,575)	679,773
-	153,362	-	-	153,362
-	-	(1,058)	-	(1,058)
-	-	231	-	231
-	-	14,740	-	14,740
-	(11,878)	-	-	(11,878)
2,495	-	-	-	2,495
3,543	-	-	-	3,732
1,013	-	-	-	1,013
-	-	-	-	2
421	-	-	-	440
701	-	-	-	724
(1,203)	-	-	-	-
5,813	-	-	-	6,042
-	-	-	(59,156)	(59,156)
3,272	-	-	-	3,272
\$1,028,393	\$ (200,432)	\$ (32,644)	\$ (62,731)	\$ 793,734

MCDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1999

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	1999	1998	1997
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income (Loss)	\$ 153,362	\$ 215,690	\$ (206,105)
-----			
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	101,390	142,301	151,581
Income or loss of investees, less dividends	20,271	(13,913)	17,422
(Gain) loss on asset disposals and impairments - net	(17,910)	(79,065)	526
Provision for (benefit from) deferred taxes	(29,725)	9,521	(211)
Extraordinary loss	38,719	-	-
Other	3,805	15,372	6,525
Changes in assets and liabilities, net of effects from acquisitions and divestitures:			
Accounts receivable	79,553	28,596	7,978
Accounts payable	(100,835)	31,712	3,443
Inventories	10,305	1,974	123
Net contracts in progress and advance billings	31,470	152,097	139,188
Income taxes	627	(47,356)	(6,026)
Accrued liabilities	41,238	30,746	(26,936)
Products and environmental liabilities	49,133	11,524	86,812
Other, net	(45,670)	116,973	(32,609)
Proceeds from insurance for products liability claims	191,728	157,656	153,141
Payments of products liability claims	(227,176)	(196,091)	(188,205)
NET CASH PROVIDED BY OPERATING ACTIVITIES	300,285	577,737	106,647
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions	-	(6,627)	-
Purchases of property, plant and equipment	(78,787)	(45,090)	(91,371)
Purchases of available-for-sale securities	(827,371)	(788,503)	(617,464)
Maturities of available-for-sale securities	664,183	112,369	219,301
Sales of available-for-sale securities	339,478	95,430	156,827
Proceeds from asset disposals	145,161	457,337	106,304
Investments in equity investees	88	(4,391)	(31,030)
Returns from investees	-	2,124	24,500
Other	-	-	(1,821)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	242,752	(177,351)	(234,754)
-----			

## INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	1999	1998	1997
	-----	-----	-----
	(In thousands)		
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of long-term debt	\$ (326,921)	\$ (152,116)	\$ (31,687)
Issuance of long-term debt	-	-	244,375
Decrease in short-term borrowing	(30,954)	(208,759)	(12,371)
Issuance of common stock	4,173	31,431	565
Issuance of subsidiary's stock	2,127	5,599	4,569
Acquisition of subsidiary's common stock	(58,272)	(13,537)	-
Acquisition of subsidiary's preferred stock	(154,633)	(15,406)	(2,250)
Dividends paid	(13,810)	(19,367)	(51,947)
Purchase of McDermott International, Inc. stock	(59,156)	(3,662)	-
Other	(3,686)	(5,102)	(4,843)
-----			
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(641,132)	(380,919)	146,411
-----			
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	1,722	626	816
-----			
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(96,373)	20,093	19,120
-----			
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	277,876	257,783	238,663
-----			
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$181,503	\$277,876	\$257,783
-----			
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest (net of amount capitalized)	\$ 68,317	\$ 87,514	\$ 85,502
Income taxes (net of refunds)	\$ 44,044	\$ 15,571	\$ 14,758
-----			
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES			
Transfer of accounts receivables sold under a purchase and sale agreement from secured borrowings to sales treatment			
	\$ 56,929	\$ -	\$ -
-----			

See accompanying notes to consolidated financial statements.

McDERMOTT INTERNATIONAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1999

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 ("GAAP"). The consolidated financial statements include the accounts of McDermott International, Inc. and its subsidiaries and controlled joint ventures. Investments in joint ventures and other entities which McDermott International, Inc. does not control, but has significant influence over, are accounted for using the equity method. All significant intercompany transactions and accounts have been eliminated. Certain amounts previously reported have been reclassified to conform with the presentation at March 31, 1999.

Hereinafter, unless the context requires otherwise, the following terms shall mean:

- . MII for McDermott International, Inc., a Panama corporation,
- . JRM for J. Ray McDermott, S. A., a majority-owned Panamanian subsidiary of MII, and its consolidated subsidiaries,
- . MI for McDermott Incorporated, a Delaware subsidiary of MII, and its consolidated subsidiaries,
- . BWICO for Babcock & Wilcox Investment Company, a Delaware subsidiary of MI,
- . B&W for the Babcock & Wilcox Company, a Delaware subsidiary of BWICO, and its consolidated subsidiaries,
- . BWXT for BWX Technologies, Inc., a Delaware subsidiary of BWICO, and its consolidated subsidiaries, and
- . McDermott for 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.

Earnings Per Share  
-----

Earnings (loss) per common share has been computed on the basis of the weighted average number of common shares and, where dilutive, common share equivalents, outstanding during the indicated periods.

Investments  
-----

McDermott'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 as a component of accumulated other comprehensive loss. Investments available for current operations are classified in the balance sheet as current assets while investments held for long-term 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.

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 as a component of accumulated other comprehensive loss. Foreign currency transaction adjustments are reported

in income. Included in other income (expense) are transaction gains of \$3,384,000, \$5,200,000, and \$3,628,000 for fiscal years 1999, 1998 and 1997, respectively. In fiscal years 1999 and 1998, a loss of \$15,596,000 and a gain of \$1,005,000, respectively, were transferred from currency translation adjustments and included in gain (loss) on asset disposals and impairments - net due to the sale of foreign investments.

Contracts and Revenue Recognition

Contract revenues and related costs are principally recognized on a percentage of completion method for individual contracts or combinations thereof based upon work performed or a cost to cost method, as applicable to the product or activity involved. Certain partnering contracts contain a risk and reward element, whereby a portion of total compensation is tied to the overall performance of the alliance partners. 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. All unbilled revenues will 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 \$15,535,000 and \$5,790,000 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, 1999 and 1998, respectively.

	1999	1998
	-----	-----
	(In thousands)	
Included in Contracts in Progress are:		
Costs incurred less costs of revenue recognized	\$ 46,942	\$ 88,519
Revenues recognized less billings to customers	132,368	151,029
-----		
Contracts in Progress	\$179,310	\$239,548
-----		
Included in Advance Billings on Contracts are:		
Billings to customers less revenues recognized	\$320,523	\$311,302
Costs incurred less costs of revenue recognized	(80,143)	(42,538)
-----		
Advance Billings on Contracts	\$240,380	\$268,764
-----		

McDermott is usually entitled to financial settlements relative to the individual circumstances of deferrals or cancellations of Power Generation Systems' contracts. McDermott 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:

	1999	1998
	----	----
	(In thousands)	
Retainages	\$108,605	\$70,414
-----		
Retainages expected to be collected after one year	\$ 29,246	\$33,567
-----		

Of its long-term retainages at March 31, 1999, McDermott anticipates collection of \$10,946,000 in fiscal year 2001, \$17,167,000 in fiscal year 2002 and \$1,133,000 in fiscal year 2003.

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 16% and 17% of total inventories was determined using the LIFO method at March 31, 1999 and 1998, respectively. Inventories at March 31, 1999 and 1998 are summarized below:

	1999	1998
	-----	-----
	(In thousands)	
Raw Materials and Supplies	\$37,481	\$47,411
Work in Progress	7,606	6,720
Finished Goods	7,569	9,211
-----		
Total Inventories	\$52,656	\$63,342
-----		

Comprehensive Income (Loss)  
-----

Effective April 1, 1998, McDermott adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," to report and display comprehensive income and its components. Under this new principle, the accumulated other comprehensive income or loss is displayed in the consolidated balance sheet as a component of stockholders' equity. Comprehensive income is displayed as a separate financial statement.

The components of accumulated other comprehensive loss included in stockholders' equity at March 31, 1999 and 1998 are as follows:

	1999	1998
	-----	-----
	(In thousands)	
Currency Translation Adjustments	\$(27,762)	\$(42,502)
Net Unrealized Gain on Investments	906	675
Minimum Pension Liability	(5,788)	(4,730)
-----		
Accumulated Other Comprehensive Loss	\$(32,644)	\$(46,557)
-----		

Warranty Expense  
-----

Estimated warranty expense which may be required to satisfy contractual requirements, primarily of the Power Generation Systems segment, is accrued relative to revenue recognition on the respective contracts. JRM includes warranty costs as a component of their total contract cost estimate to satisfy contractual requirements. In addition, specific provisions are made where the costs of warranty are expected to significantly exceed such accruals.

Environmental Clean-up Costs  
-----

McDermott accrues for future decommissioning 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, based on the estimated cost of those activities, are over the economic useful life of each facility, which is estimated at 40 years. Estimated costs are adjusted as further information develops or circumstances change and, if applicable, are net of cost-sharing agreements. Costs of future expenditures for environmental clean-up are not discounted to their present value. However, there is an exception at one facility that has provisions in its government contracts pursuant to which all of its decommissioning costs are covered by the U.S. Government. Recoveries of environmental clean-up costs from other parties are recognized as assets when their receipt is deemed probable.

#### Research and Development

Research and development activities are related to development and improvement of new and existing products and equipment and conceptual and engineering evaluation for translation into practical applications. The cost of research and development which is not performed on specific contracts is charged to operations as incurred. Such expense was approximately \$12,312,000, \$15,125,000 and \$16,579,000 in fiscal years 1999, 1998 and 1997, respectively. In addition, expenditures on research and development activities of approximately \$15,752,000, \$22,803,000 and \$34,170,000 in fiscal years 1999, 1998 and 1997, respectively, were paid for by customers of McDermott.

#### Minority Interest

Minority interest expense includes dividends on MI preferred stock (see Note 8) and the recognition of minority shareholder participation in the results of operations of less than wholly-owned subsidiaries.

#### Long-Lived Assets

McDermott evaluates the realizability of its long-lived assets, including property, plant and equipment and goodwill, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

#### Property, Plant and Equipment

Property, plant and equipment are carried at cost, reduced by provisions to recognize economic impairment when management determines such impairment has occurred.

Except for major marine vessels, property, plant and equipment is depreciated using the straight-line method, over 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 using 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. Depreciation expense was \$84,404,000, \$106,305,000 and \$102,486,000 for fiscal years 1999, 1998 and 1997, respectively.

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, generally 3 to 5 years. Such accruals are charged to operations currently.

#### Intangible Assets

The majority of goodwill pertains to the acquisition of B&W. McDermott amortizes goodwill associated with the acquisition of B&W on a straight-line basis over 40 years and amortizes other goodwill over 10 to 20 years. During fiscal year 1999, McDermott recorded \$27,231,000 of additional goodwill arising from JRM's purchase of treasury shares (see Note 2) and a reduction of goodwill of \$9,267,000 relating to the sale of McDermott Subsea Constructors Limited (see Note 3). Impairments of goodwill of \$10,461,000 and \$272,610,000, respectively, were recorded in fiscal years 1999 and 1998 (see Note 7).

Goodwill amortization expense was \$8,290,000, \$25,026,000 and \$31,641,000 for fiscal years 1999, 1998 and 1997, respectively.

Other intangible assets of \$22,638,000 and \$30,293,000 are included in other assets at March 31, 1999 and 1998, respectively. These intangible assets consist primarily of trademarks, rights to use technology, investments in oil and gas properties and non-competition agreements. Amortization expense for these intangible assets was \$6,909,000, \$8,229,000 and \$10,187,000, respectively, for fiscal years 1999, 1998 and 1997.

#### Capitalization of Interest Cost

Interest is capitalized in accordance with SFAS No. 34, "Capitalization of Interest Cost." In fiscal years 1999, 1998 and 1997, total interest cost incurred was \$63,839,000, \$82,347,000 and \$95,924,000, respectively, of which \$578,000, \$893,000 and \$824,000, respectively, was capitalized.

#### 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

McDermott attempts to minimize its exposure to changes in foreign currency exchange rates by matching 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, McDermott enters into derivatives, primarily forward exchange contracts, to reduce the impact of foreign exchange rate movements on operating results. Gains and losses on forward exchange contracts that qualify as hedges of firm purchase and sale 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.

#### Stock-Based Compensation

McDermott follows Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for its employee stock plans. Under APB 25, if the exercise price of the Company's employee stock options equals or exceeds the fair value of the underlying stock on the measurement date, no compensation expense is recognized. If the measurement date is later than the date of grant, compensation expense is recorded to the measurement date based on the quoted market price of the underlying stock at the end of each period.

#### New Accounting Standards

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-Up Activities," which is effective for fiscal years beginning after December 15, 1998. SOP 98-5 provides guidance on accounting for the costs of start-up activities and requires that entities expense start-up costs and organization costs as they are incurred. McDermott's adoption of SOP 98-5 will not have a material impact on its consolidated financial position or results of operations.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for fiscal years beginning after June 15, 1999. SFAS No. 133 will require McDermott to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. McDermott has not yet determined what effect the adoption of SFAS No. 133 will have on its consolidated financial position or results of operations.

#### NOTE 2 - ACQUISITIONS

During fiscal year 1997, an additional interest in Talleres Navales del Golfo, a Mexican shipyard, was acquired. During fiscal year 1998, McDermott acquired the minority ownership in Diamond Power Specialty U.K. In fiscal years 1999 and 1998, McDermott acquired a portion of the outstanding minority interest of JRM, as a

result of JRM's purchase of treasury shares. These acquisitions were accounted for using the purchase method, and operating results have been included in the Consolidated Statement of Income (Loss) from the acquisition dates. Pro forma results of operations have not been presented because the effects of these acquisitions were not significant.

Subsequent Event--On May 13, 1999, MII commenced a tender offer to acquire all outstanding shares of JRM not already owned by MII for \$35.62 per share. JRM currently has approximately 39,060,000 shares outstanding, of which MII owns approximately 63%.

NOTE 3 - INVESTMENT IN UNCONSOLIDATED AFFILIATES

Included in other assets are investments in joint ventures and other entities, which are accounted for using the equity method, of \$61,393,000 and \$72,389,000 at March 31, 1999 and 1998, respectively. Undistributed earnings of equity method investees were \$38,088,000 and \$40,484,000 at March 31, 1999 and 1998, respectively.

Summarized combined balance sheet and income statement information, based on the most recent financial information, for investments in entities accounted for using the equity method are presented below:

	1999	1998
	-----	-----
	(In thousands)	
Current Assets	\$448,558	\$ 629,773
Non-Current Assets	205,562	259,694
-----		
Total Assets	\$654,120	\$ 889,467
-----		
Current Liabilities	\$361,058	\$ 610,694
Non-Current Liabilities	124,521	123,390
Owners' Equity	168,541	155,383
-----		
Total Liabilities and Owners' Equity	\$654,120	\$ 889,467
-----		

	1999	1998	1997
	-----	-----	-----
	(In thousands)		
Revenues	\$1,100,224	\$1,535,987	\$1,239,071
Gross Profit	\$ 64,645	\$ 172,349	\$ 120,600
Income before Provision for Income Taxes	\$ 37,031	\$ 90,564	\$ 22,050
Provision for Income Taxes	4,398	27,460	10,767
-----			
Net Income	\$ 32,633	\$ 63,104	\$ 11,283
-----			

McDermott's investment in equity method investees was less than McDermott's underlying equity in net assets of those investees based on stated ownership percentages by \$18,824,000 at March 31, 1999 and greater than McDermott's underlying equity in net assets by \$4,355,000 at March 31, 1998. These differences are primarily related to the partial liquidation of an investee, cumulative losses, the timing of distribution of dividends and various GAAP adjustments.

Reconciliation of net income per combined income statement information to income (loss) from investees per consolidated statement of income (loss) as of March 31:

	1999	1998	1997
	-----	-----	-----
	(In thousands)		
Equity income based on stated ownership percentages	\$12,768	\$25,192	\$ 594
Distribution of earnings from HeereMac joint venture received as part of termination	-	61,637	-
Impairment of advances to investee	(4,823)	-	-
Recognition of joint venture project losses	-	-	(6,508)
All other adjustments due to amortization of basis differences, timing of GAAP adjustments and other adjustments	434	(1,447)	1,816
Income (loss) from investees	\$ 8,379	\$85,382	\$(4,098)

During fiscal year 1998, JRM and its joint venture partner, Heerema Offshore Construction Group, Inc. ("Heerema"), terminated the HeereMac joint venture. Each party had a 50% interest in the joint venture. Heerema had responsibility for its day-to-day operations. During fiscal year 1997, JRM changed from the equity to the cost method of accounting for its investment in the HeereMac joint venture because it was no longer able to exercise significant influence over HeereMac's operating and financial policies.

Pursuant to the termination of the joint venture, Heerema acquired and assumed JRM's 50% interest in the joint venture. JRM received \$318,500,000 in cash and title to several pieces of equipment. The cash received included a \$61,637,000 distribution of earnings and approximately \$100,000,000 of principal and interest owed to JRM under the 7.75% promissory note described in the next paragraph. The equipment received included two launch barges and the derrick barge 101, a semi-submersible derrick barge with a 3,500-ton lift capacity. As a result of the termination, JRM recorded a gain on asset disposal of \$224,472,000 and income from investees of \$61,637,000. The \$224,472,000 gain on asset disposal includes recognition of the remaining deferred gain which had resulted from the 1996 sale of vessels to the HeereMac joint venture described in the next paragraph.

During fiscal year 1996, JRM sold to the HeereMac joint venture the major marine vessels that it had been leasing to the joint venture. JRM received cash of \$135,969,000 (including a \$30,000,000 advance deposit on the sale of certain marine equipment which was completed during fiscal year 1997) and a 7.75% note receivable of \$105,000,000. JRM recorded a deferred gain on the sale of \$103,239,000. The note receivable, net of the deferred gain, was included in investment in unconsolidated affiliates. Prior to the change to the cost method of accounting for its investment in HeereMac, JRM was amortizing the deferred gain over the depreciable lives of the vessels that were assigned by HeereMac. After the change to the cost method, JRM recognized pro rata portions of the deferred gain as payments were received on the 7.75% note. In fiscal year 1997, JRM received a \$12,500,000 principal payment on the note and recognized \$12,271,000 of the deferred gain. At March 31, 1997, the note receivable and deferred gain balances were \$92,500,000 and \$90,803,000, respectively. Also, in fiscal year 1997, JRM realized a gain of \$16,682,000 on the sale of a marine vessel by HeereMac on behalf of JRM.

On April 3, 1998, JRM and ETPM S.A. terminated their worldwide McDermott-ETPM joint venture, and JRM recognized a gain on the termination of \$37,353,000. Pursuant to the termination, JRM received cash of approximately \$105,000,000, ETPM S.A.'s derrick/lay barge 1601 and ETPM S.A.'s interest in McDermott-ETPM East, Inc. and McDermott-ETPM Far East, Inc. ETPM S.A. received JRM's lay barge 200 and JRM's interest in McDermott Subsea Constructors Limited ("MSCL") and McDermott-ETPM West, Inc. The consolidated statement of income (loss) includes revenues of \$74,096,000 and \$44,033,000 and operating income (loss) of \$18,751,000 and (\$22,956,000) for fiscal years 1998 and 1997, respectively, attributable to operations transferred to ETPM S.A.

During fiscal year 1999, JRM's Malaysian joint venture sold two combination pipelay and derrick barges. The joint venture, in which JRM holds a 49% interest, received approximately \$47,000,000 in cash for the barges.

McDermott has investments in numerous joint ventures and other entities on a worldwide basis. No individual investee was significant for the periods presented.

Transactions with unconsolidated affiliates included the following:

	1999	1998	1997
	-----	-----	-----
	(In thousands)		
Sales to Leasing activities	\$136,737	\$164,501	\$140,605
(included in Sales to)	\$ 42,154	\$ 10,491	\$ 9,609
Purchases from	\$ 12,223	\$ 33,544	\$ 32,103
Dividends received	\$ 28,650	\$ 9,832	\$ 13,324

Other assets include \$2,819,000 and \$4,250,000 at March 31, 1999 and 1998, respectively, of non-current accounts receivable from unconsolidated affiliates. Accounts payable includes \$28,314,000 and \$25,803,000 at March 31, 1999 and 1998, respectively, of payables to unconsolidated affiliates. Property, plant and equipment includes cost of \$63,594,000 and accumulated depreciation of \$29,497,000 at March 31, 1999 of marine equipment that was leased, on an as needed basis, to an unconsolidated affiliate. Property, plant and equipment includes cost of \$137,513,000 and accumulated depreciation of \$113,528,000 at March 31, 1998 of marine equipment that was leased to the McDermott-ETPM joint venture. This marine equipment was transferred to ETPM S.A. as part of the termination of the McDermott-ETPM joint venture on April 3, 1998.

#### 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 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. The regimes of taxation vary not only with respect to nominal rate, but also with respect to the allowability of deductions, credits and other benefits. The variations are also 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. MII 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, 1999 and 1998 were as follows:

	1999	1998
	-----	
	(In thousands)	
Deferred tax assets:		
Accrued warranty expense	\$ 15,848	\$ 15,582
Accrued vacation pay	8,234	10,259
Accrued liabilities for self-insurance (including postretirement health care benefits)	69,025	169,768
Accrued liabilities for executive and employee incentive compensation	30,972	28,517
Investments in joint ventures and affiliated companies	6,419	9,498
Operating loss carryforwards	13,458	25,394
Environmental and products liabilities	620,992	363,598
Other	29,489	34,710
-----	-----	-----
Total deferred tax assets	794,437	657,326
-----	-----	-----
Valuation allowance for deferred tax assets	(39,961)	(69,057)
-----	-----	-----
Deferred tax assets	754,476	588,269
-----	-----	-----
Deferred tax liabilities:		
Property, plant and equipment	21,644	37,184
Prepaid pension costs	11,493	110,801
Investments in joint ventures and affiliated companies	15,243	13,921
Insurance and other recoverables	544,382	291,899
Other	5,526	11,694
-----	-----	-----
Total deferred tax liabilities	598,288	465,499
-----	-----	-----
Net deferred tax assets	\$156,188	\$122,770
-----	-----	-----

Income (loss) before provision for (benefit from) income taxes and extraordinary item was as follows:

	1999	1998	1997
	-----		
	(In thousands)		
U.S.	\$ 63,361	\$ (125,441)	\$ (164,771)
Other than U.S.	123,917	417,248	(55,926)
-----	-----	-----	-----
Income (loss) before provision for (benefit from) income taxes and extraordinary item	\$187,278	\$ 291,807	\$ (220,697)
-----	-----	-----	-----

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

Current:			
U.S. - Federal	\$ 18,582	\$54,340	\$ (13,411)
U.S. - State and local	7,983	8,541	(2,667)
Other than U.S.	(1,643)	3,715	1,697
-----	-----	-----	-----
Total current	24,922	66,596	(14,381)
-----	-----	-----	-----
Deferred			
U.S. - Federal	(37,152)	(147)	7,090
U.S. - State and local	2,823	69	(1,862)
Other than U.S.	4,604	9,599	(5,439)
-----	-----	-----	-----
Total deferred	(29,725)	9,521	(211)
-----	-----	-----	-----
Provision for (benefit from) income taxes	\$ (4,803)	\$76,117	\$ (14,592)
-----	-----	-----	-----

There is no provision for (benefit from) income taxes associated with the extraordinary item of \$38,719,000 recorded by JRM.

The current provision for other than U.S. income taxes in 1999, 1998 and 1997 includes a reduction of \$525,000, \$10,427,000 and \$2,021,000, respectively, for the benefit of net operating loss carryforwards. Fiscal 1999 also includes a benefit totaling approximately \$25,456,000 for a reduction in the valuation allowance for deferred taxes. This reduction is the result of tax planning strategies, use of operating loss carrybacks and forecasted taxable income. Included in the reduction of the valuation allowance was an amount that generated no tax benefit which resulted from the sale of a foreign subsidiary. In addition, fiscal 1999 also includes favorable tax settlements in U.S. and foreign jurisdictions totaling approximately \$30,429,000. Initial recognition of OPI pre-acquisition tax benefits in fiscal year 1997 resulted in a reduction in excess cost over fair value of assets acquired of \$3,115,000.

MII and JRM would be subject to withholding taxes on distributions of earnings from their U.S. subsidiaries and certain foreign subsidiaries. No withholding taxes have been provided as these earnings are considered indefinitely reinvested. It is not practicable to estimate the deferred tax liability on those earnings.

Settlements were reached with the Internal Revenue Service ("IRS") concerning MI's U.S. income tax liability through the fiscal year ended March 31, 1990, disposing of all U.S. federal income tax issues. The IRS has issued notices for fiscal years ended March 31, 1991 and March 31, 1992 asserting deficiencies in the amount of taxes reported. The deficiencies are based on issues substantially similar to those of earlier years. MI believes that any income taxes ultimately assessed will not exceed amounts already provided.

McDermott has provided a valuation allowance (\$39,961,000 at March 31, 1999) 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, 1999 are realizable through carrybacks and future reversals of existing taxable temporary differences, future taxable income and, if necessary, the implementation of tax planning strategies involving the sales of appreciated assets. Uncertainties that affect the ultimate realization of deferred tax assets are the risk of incurring losses in the future and the possibility of declines in value of appreciated assets involved in identified tax planning strategies. These factors have been considered in determining the valuation allowance. Management will continue to assess the adequacy of the valuation allowance on a quarterly basis.

McDermott has foreign net operating loss carryforwards of approximately \$15,000,000 available to offset future taxable income in foreign jurisdictions.

Pursuant to a stock purchase and sale agreement (the "Intercompany Agreement"), MI has the right to sell to MII and MII has the right to buy from MI, 100,000 units, each unit consisting of one share of MII Common Stock and one share of MII Series A Participating Preferred Stock. The price is based primarily upon the stockholders' equity of MII 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, 1999, the current unit value was \$2,903 and the aggregate current unit value for MI's 100,000 units was \$290,336,000. The net proceeds to MI 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

	1999	1998
	-----	-----
	(In thousands)	
Long-term debt consists of:		
Unsecured Debt:		
Series A Medium Term Notes (maturities ranging from 1 to 5 years; interest at various rates ranging from 8.20% to 9.00%)	\$ 40,000	\$ 40,000
Series B Medium Term Notes (maturities ranging from 1 to 25 years; interest at various rates ranging from 6.50% to 8.75%)	64,000	91,000
9.375% Notes due 2002 (\$225,000,000 principal amount)	224,739	224,665
9.375% Senior Subordinated Notes due 2006 (\$250,000,000 principal amount)	1,397	244,986
Other notes payable through 2009 (interest at various rates ranging to 10%)	23,667	35,484
Secured Debt:		
10.375% Note payable due 1998	-	12,200
Other notes payable through 2012 and capitalized lease obligations	1,097	18,264
	-----	-----
	354,900	666,599
Less: Amounts due within one year	31,126	68,417
	-----	-----
Long-term debt	\$323,774	\$598,182
	-----	-----

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

Short-term lines of credit - unsecured	\$ -	\$ 5,100
Secured borrowings	-	82,783
Current maturities of long-term debt	31,126	68,417
	-----	-----
Total	\$31,126	\$156,300
	-----	-----
Weighted average interest rate on short-term borrowings	8.20%	5.87%
	-----	-----

The Indentures for the 9.375% Notes due 2002 and the Series A and B Medium Term Notes contain certain restrictive covenants, including limitations on indebtedness, liens securing indebtedness and dividends and loans.

On March 5, 1999, JRM consummated an offer to purchase all of its outstanding 9.375% Senior Subordinated Notes at a purchase price of 113.046% of their principal amount (\$1,130.46 per \$1,000 principal amount), plus accrued and unpaid interest. On that date, JRM purchased \$248,575,000 in principal amount of the notes for a total purchase price of \$284,564,000, including interest of \$3,560,000. As a result, JRM recorded an extraordinary loss of \$38,719,000. In connection with the purchase of the notes, JRM received consents to certain amendments that amended or eliminated certain restrictive covenants and other provisions contained in the indenture relating to the notes. Specifically, the covenants contained in the indenture that restricted JRM's ability to pay dividends, repurchase or redeem its capital stock, or to transfer funds through unsecured loans to or investments in MII were eliminated.

Maturities of long-term debt during the five fiscal years subsequent to March 31, 1999 are as follows: 2000 - \$31,126,000; 2001 - \$452,000; 2002 - \$224,949,000; 2003 - \$25,000; 2004 - \$9,525,000.

At March 31, 1998, McDermott had \$82,783,000 in secured borrowings pursuant to a receivables purchase and sale agreement between B&W and certain of its affiliates and subsidiaries and a U.S. Bank. Through July 31, 1998, \$25,854,000 was repaid under the agreement. Effective July 31, 1998, the receivables purchase and sale agreement was amended and restated to provide for, among other things, the inclusion of certain insurance recoverables in the pool of qualified accounts receivable. It also provided for sales treatment as opposed to secured financing treatment for this arrangement under SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." As a result, \$56,929,000 was removed from notes payable and current maturities of long-term debt on the balance sheet. This amended agreement was terminated on April 30, 1999.

At March 31, 1999 and 1998, McDermott had available various uncommitted short-term lines of credit from banks totaling \$87,578,000 and \$127,061,000, respectively. Borrowings against these lines of credit at March 31, 1998 were \$5,100,000. There were no borrowings against these lines at March 31, 1999. At March 31, 1998, B&W was a party to a revolving credit facility under which there were no borrowings. In July 1998, B&W terminated its existing credit facility and, jointly and severally with BWICO and BWXT, entered into a new \$200,000,000 three-year, unsecured credit agreement (the "BWICO Credit Agreement") with a group of banks. Borrowings by the three companies against the BWICO Credit Agreement cannot exceed an aggregate amount of \$50,000,000. The remaining \$150,000,000 is reserved for the issuance of letters of credit. In connection with satisfying a condition to borrowing or issuing letters of credit under the BWICO Credit Agreement, MI made a \$15,000,000 capital contribution to BWICO in August 1998. At March 31, 1999, there were no borrowings under the BWICO Credit Agreement. Under the BWICO Credit Agreement, there are certain restrictive covenants, including limitations on indebtedness, sales and leaseback transactions, investments, loans and advances and the maintenance of certain financial ratios. Commitment fees are on .40% of the unused portion of BWICO Credit Agreement's \$200,000,000 commitment. Commitment fees totaled approximately \$733,000, \$412,000 and \$160,000 for fiscal years 1999, 1998 and 1997, respectively.

At March 31, 1998, JRM and certain of its subsidiaries were parties to a revolving credit facility under which there were no borrowings. In June 1998, JRM and such subsidiaries entered into a new \$200,000,000 three-year, unsecured credit agreement (the "JRM Credit Agreement") with a group of banks. Borrowings against the JRM Credit Agreement cannot exceed \$50,000,000. The remaining \$150,000,000 is reserved for the issuance of letters of credit. At March 31, 1999, there were no borrowings under the JRM Credit Agreement. Management does not anticipate JRM will need to borrow funds under the JRM Credit Agreement during fiscal year 2000. Subsequent to year-end, JRM elected to reduce the commitments on the JRM Credit Agreement from \$200,000,000 to \$100,000,000. Under the JRM Credit Agreement, there are certain restrictive covenants, including limitations on additional indebtedness, liens securing indebtedness, sales and leaseback transactions, investments, loans and advances and the maintenance of certain financial ratios. Commitment fees were on .35% of the unused portion of JRM Credit Agreement's \$200,000,000 commitment. Commitment fees totaled approximately \$610,000, \$380,000 and \$380,000 for fiscal years 1999, 1998 and 1997, respectively.

Subsequent Event - On May 7, 1999, MII and JRM entered into a merger agreement pursuant to which MII initiated a tender offer for those shares of JRM that it did not already own for \$35.62 per share in cash. Under the merger agreement, any shares not purchased in the tender offer will be acquired for the same price in cash in a second-step merger. MII estimates that it will require approximately \$560,000,000 to consummate the tender offer and second-step merger and to pay related fees and expenses. MII expects to obtain the funds from cash on hand and from a new \$525,000,000 senior secured term loan facility with Citibank, N.A. The facility will terminate and all borrowings thereunder will mature upon the earlier of five business days after the consummation of the second merger or September 30, 1999. When the facility terminates, JRM will declare and pay a dividend and/or loan to MII such amounts that, together with MII's available cash, will be used to repay all outstanding loans under the facility. Citibank, N.A. may act either as sole lender under the facility or syndicate all or a portion of the facility to a group of financial institutions. The facility contains customary representations, warranties, covenants and events of default. The facility also includes financial covenants that:

- . require MII to maintain a minimum consolidated tangible net worth of not less than \$250,000,000,
- . limit MII's ability to pay dividends, and,
- . require MII, JRM and certain other subsidiaries to maintain cash, cash equivalents and investments in debt securities of at least \$575,000,000 at all times.

The facility is secured by a first priority pledge of all JRM capital stock and securities convertible into capital stock held by or acquired by MII or any of its subsidiaries. Commitment fees will be approximately \$3,300,000 in the next fiscal year.

#### NOTE 6 - PENSION PLANS AND POSTRETIREMENT BENEFITS

McDermott provides retirement benefits, primarily through non-contributory pension plans, for substantially all of its regular full-time employees. McDermott does not provide retirement benefits to 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'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.

Postretirement health care and life insurance benefits are supplied to union employees based on union contracts. Effective April 1, 1998, McDermott terminated all other postretirement benefits. On the same date, the pension plans for the employees affected by the termination were amended to increase the benefits payable to offset the cost of postretirement health care and life insurance to the participants. The decrease in the postretirement benefit obligation was measured against the increase in the projected benefit obligation of the pension plans, and a resulting curtailment gain of \$21,940,000 was recognized in fiscal year 1999.

In February 1998, McDermott terminated its Retirement Plan for Non-Management Directors and issued 32,040 shares of McDermott Common Stock to the directors at that time, in full satisfaction of their accrued benefits under the terminated plan.

Effective April 1, 1998, McDermott adopted SFAS No. 132 "Employers' Disclosure about Pensions and Other Postretirement Benefits." SFAS No. 132 establishes new disclosure requirements for pension and postretirement benefits. Fiscal year 1998 balances have been restated to comply with the new requirements.

	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
	(In thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of fiscal year	\$1,411,512	\$1,244,134	\$ 349,288	\$ 370,866
Service cost	33,341	29,002	203	3,487
Interest cost	112,822	94,182	9,478	26,480
Plan participants' contributions	136	127	-	-
Curtailments	1,452	3,011	(215,751)	-
Amendments	245,306	291	-	-
Change in assumptions	101,387	111,592	3,012	-
Actuarial (gain) loss	9,210	(3,386)	29,049	(10,880)
Foreign currency exchange rate changes	(7,014)	772	-	-
Benefits paid	(108,709)	(68,213)	(21,332)	(40,665)
Benefit obligation at end of year	1,799,443	1,411,512	153,947	349,288
Change in plan assets:				
Fair value of plan assets at beginning of year	1,822,166	1,561,368	-	-
Actual return on plan assets	190,586	320,797	-	-
Company contributions	14,602	8,033	21,332	40,665
Plan participants' contributions	136	127	-	-
Foreign currency exchange rate changes	(12,898)	54	-	-
Benefits paid	(101,346)	(68,213)	(21,332)	(40,665)
Fair value of plan assets at the end of year	1,913,246	1,822,166	-	-
Funded status	113,803	410,654	(153,947)	(349,288)
Unrecognized net obligation	(25,456)	(36,006)	2,712	-
Unrecognized prior service cost	14,689	16,035	-	-
Unrecognized actuarial (gain) loss	(42,866)	(107,657)	1,879	(77,159)
Net amount recognized	\$ 60,170	\$ 283,026	\$ (149,356)	\$ (426,447)
Amounts recognized in the statement of financial position consist of:				
Prepaid benefit cost	\$ 130,437	\$ 328,583	\$ -	\$ -
Accrued benefit liability	(81,727)	(55,694)	(149,356)	(426,447)
Intangible asset	2,435	2,969	-	-
Accumulated other comprehensive income	9,025	7,168	-	-
Net amount recognized	\$ 60,170	\$ 283,026	\$ (149,356)	\$ (426,447)
Weighted average assumptions as of March 31:				
Discount rate	7.01%	7.52%	6.60%	7.00%
Expected return on plan assets	8.13%	8.47%	-	-
Rate of compensation increase	4.50%	4.97%	-	-

For measurement purposes, a 5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2000. The rate was assumed to decrease gradually to 4 percent in 2005 and remain at that level thereafter.

	Pension Benefits			Other Benefits		
	1999	1998	1997	1999	1998	1997
	(In thousands)					
Components of net periodic benefit income (cost):						
Service cost	\$ 33,341	\$ 29,002	\$ 30,589	\$ 203	\$ 3,487	\$ 4,737
Interest cost	112,822	94,182	86,111	9,478	26,480	30,551
Expected return on plan assets	(146,990)	(130,317)	(175,041)	-	-	-
Amortization of prior service cost	2,522	2,430	2,170	-	-	-
Recognized net actuarial (gain) loss	(11,792)	(7,493)	49,079	(1,109)	(4,416)	751
Net periodic benefit income (cost)	\$ (10,097)	\$ (12,196)	\$ (7,092)	\$ 8,572	\$ 25,551	\$ 36,039

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$253,434,000, \$207,549,000 and \$152,700,000, respectively, for fiscal year ended March 31, 1999 and \$122,277,000, \$92,724,000 and \$64,231,000, respectively, for fiscal year ended March 31, 1998.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage- Point Increase	One-Percentage- Point Decrease
	(In thousands)	
Effect on total of service and interest cost components	\$ 300	\$ (288)
Effect on postretirement benefit obligation	\$4,286	\$ (4,238)

Multiemployer Plans - One of MII'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 \$11,295,000, \$5,151,000 and \$4,552,000 in fiscal years 1999, 1998 and 1997, respectively.

#### NOTE 7 IMPAIRMENT OF LONG-LIVED ASSETS AND GOODWILL

Impairment losses to write-down property, plant and equipment to estimated fair values and to write-off goodwill are summarized by segment as follows:

	1999	1998	1997
	(In thousands)		
Property, plant and equipment:			
Assets to be held and used:			
Marine Construction Services	\$16,458	\$ 2,891	\$19,228
Power Generation Systems	-	8,704	11,098
Assets to be disposed of:			
Marine Construction Services	877	7,000	12,162
Industrial Operations	261	-	7,295
Goodwill:			
Marine Construction Services	10,461	262,901	-
Power Generation Systems	-	1,611	4,859
Industrial Operations	-	8,098	-
Total	\$28,057	\$291,205	\$54,642

Property, plant and equipment assets to be held and used

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During fiscal years 1999, 1998 and 1997, management identified certain long-lived assets that were no longer expected to recover their entire carrying value through future cash flows. Fair values were generally determined based on sales prices of comparable assets. The assets include non-core, surplus and obsolete property and equipment and fabrication facilities in the Marine Construction Services segment, and manufacturing facilities and related equipment in the Power Generation Systems segment.

Property, plant and equipment assets to be disposed of

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In fiscal year 1999, the Marine Construction Services segment recorded a loss of \$877,000 to reduce a building located near London to its fair value less cost to sell. Prior to recognition of the impairment loss, the building had a net book value of approximately \$7,549,000. Management decided to sell the building as a result of its withdrawal from traditional European engineering operations. The building is expected to be sold during the next year.

In fiscal year 1998, the Marine Construction Services segment recorded a loss of \$7,000,000 to reduce a Floating Production, Storage and Offloading System ("FPSO") to its estimated fair value less cost to sell. Prior to recognition of the impairment loss, the FPSO had a net book value of approximately \$21,500,000. The estimated fair value was determined based upon management's best estimate, as these types of vessels are somewhat unique in nature. Management decided to sell the FPSO as a result of a strategic decision to exit this market. Excluding the impairment loss, net income for fiscal year 1998 for the FPSO was \$2,774,000. The FPSO was sold during fiscal year 1999 resulting in a loss on asset disposal of approximately \$2,382,000.

In fiscal year 1997, the Marine Construction Services segment recorded losses of \$12,162,000 to reduce certain property and equipment to estimated fair values less cost to sell. Prior to recognition of the impairment loss, the carrying value of these assets was approximately \$18,950,000. Also in fiscal year 1997, the Industrial Operations segment recorded a loss of \$7,295,000, which was adjusted in fiscal year 1998, to reduce a building and land to its estimated fair value less cost to sell. Prior to recognition of the impairment loss, the property had a book value of approximately \$15,795,000. The estimated fair value was based upon prices of similar real estate. Management had begun marketing the property that had been used as office space. Excluding the impairment losses, results of operations for fiscal year 1997, were not material. Substantially all of these assets were disposed of in fiscal year 1998, with no significant gain or loss recognized.

Goodwill

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In fiscal year 1999, the Marine Construction Services segment wrote off \$4,834,000 associated with the acquisition of a Mexican shipyard acquired in a prior year. Management determined that the goodwill related to the Mexican shipyard had no value as the facility's intended use was as a new-build facility, and the facility had been engaged primarily in ship repair. Also in fiscal year 1999, the Marine Construction Services segment wrote off \$5,627,000 related to an engineering business acquired in a prior year. Management determined that the business had no value as management has decided to withdraw from the third-party engineering business. Annual amortization of this goodwill totaled \$1,524,000.

In fiscal year 1998, the Marine Construction Services segment wrote off \$262,901,000 associated with the acquisition of OPI. In December 1997, management decided to exit the traditional shallow water business, and abandoned OPI-type work. The decision was based upon the industry outlook, the departure of key OPI executives, the disposal of significant OPI joint ventures and the disposal of major OPI vessels. Annual amortization of the OPI goodwill was approximately \$21,800,000. In addition, in fiscal year 1998, the Industrial Operations segment wrote off \$8,098,000 associated with the acquisition of McDermott Engineers and Constructors (Canada) Limited in a prior year. Management concluded that the goodwill no longer had value due to reduced future asset utilization and deteriorating market conditions

Also in fiscal years 1998 and 1997, \$1,611,000 and \$4,859,000, respectively, of goodwill related to Power Generation Systems segment manufacturing facilities and related equipment classified as assets to be held and used referred to above was written off.

#### NOTE 8 - SUBSIDIARIES' STOCKS

At March 31, 1998, 13,000,000 shares of MI Preferred Stock, with a par value of \$1 per share, were authorized. Of the authorized shares, 2,818,679 shares of Series A Cumulative Convertible Preferred Stock ("Series A"), and 2,152,766 shares of Series B Cumulative Preferred Stock ("Series B"), respectively, were outstanding (in each case, exclusive of treasury shares owned by MI) at March 31, 1998. During fiscal year 1999, the Series A and Series B stocks were redeemed. Preferred dividends of \$4,400,000, \$12,722,000 and \$13,243,000 were included as a component of minority interest in other income (expense) in fiscal years 1999, 1998 and 1997, respectively.

During fiscal year 1998, JRM's Board of Directors approved the repurchase of up to two million shares of its common stock from time to time on the open market or through negotiated transactions, depending on the availability of cash and market conditions. The purpose of the repurchases was to offset dilution created by the issuance of shares pursuant to JRM's stock compensation and thrift plans. JRM repurchased 362,500 shares at an average share price of \$37.31 during fiscal year 1998. During fiscal year 1999, JRM's Board of Directors authorized the repurchase of up to an additional one million shares of its common stock. JRM repurchased another 1,837,700 shares of its common stock at an average share price of \$31.67 through October 8, 1998, at which time JRM ceased all further share repurchases. At such time, JRM had repurchased 2,200,200 of the three million shares of its common stock authorized to be repurchased.

At March 31, 1999 and 1998, JRM had outstanding 3,200,000 shares of Series A \$2.25 Cumulative Convertible Preferred Stock ("JRM Series A Preferred Stock" - with an aggregate liquidation preference of \$160,000,000), all of which were owned by MII. Each share of JRM Series A Preferred Stock is convertible into 1.794 shares of JRM Common Stock at any time after either (i) a call by JRM for redemption of any or all of the outstanding JRM Series A Preferred Stock or (ii) January 31, 2000. At March 31, 1999, 14,538,270 shares of JRM Common Stock were reserved for issuance in connection with the conversion of JRM Series A Preferred Stock, the exercise of stock options and awards of restricted stock under JRM's stock incentive plans and contributions to the Thrift Plan described in Note 10. At March 31, 1999, 839,471 options were outstanding at a weighted average exercise price of \$26.80 per share (407,107 options exercisable at a weighted average exercise price of \$23.75 per share).

Subsequent Event On May 13, 1999, MII commenced a tender offer to acquire all outstanding shares of JRM not already owned by MII for \$35.62 per share. JRM currently has approximately 39,060,000 shares outstanding, of which MII owns approximately 63%.

#### NOTE 9 - CAPITAL STOCK

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

Common stock is issued in connection with the conversion and redemption of MI's Series A Preferred Stock (for fiscal year 1998 only), the conversion of MII's Series C Preferred Stock (for fiscal year 1998 only), the 1996 Officer Stock Program (and its predecessor programs), the 1992 Director Stock Plan, the 1992 Senior Management Stock Program and contributions to the Thrift Plan. At March 31, 1999 and 1998, 10,465,688 and 18,091,414 shares of MII Common Stock, respectively, were reserved for issuance in connection with the above.

During fiscal year 1998, MII's Board of Directors approved the repurchase of up to two million shares of its common stock from time to time on the open market or through negotiated transactions, depending on the availability of cash and market conditions. The purpose of the repurchases was to offset dilution created by the issuance of shares pursuant to MII's stock compensation and thrift plans. MII completed its two million share repurchase program in August 1998. During the fiscal year ended March 31, 1999, MII repurchased 1,900,000 shares of its common stock at an average share price of \$31.10.

MII Preferred Stock - On April 6, 1998, MII called for redemption its non-voting Series C Cumulative Convertible Preferred Stock. On April 21, 1998, all 2,875,000 shares of Series C Preferred Stock were converted into shares of MII Common Stock at a rate of 1.4184 shares of MII Common Stock for each share of Series C Preferred Stock, resulting in 4,077,890 shares of MII Common Stock being issued.

At March 31, 1999 and 1998, 100,000 shares of non-voting Series A Participating Preferred Stock (the "Participating Preferred Stock") and 30,000 and 40,000 shares of Series B Non-Voting Preferred Stock (the "Non-Voting Preferred Stock"), respectively, were issued and owned by MI. The Non-Voting Preferred Stock is currently callable by MII at \$275 per share, and 10,000 shares are being redeemed each year by MII at \$250 per share. The annual per share dividend rates for the Participating Preferred Stock and the Non-Voting Preferred Stock are \$10 and \$20, respectively, payable quarterly, and dividends on such shares are cumulative to the extent not paid. The annual per share dividend rate for the Participating Preferred Stock is limited to no more than ten times the amount of the per share dividend on MII Common Stock. In addition, shares of Participating Preferred Stock are entitled to receive additional dividends whenever dividends in excess of \$3.00 per share on MII Common Stock are declared (or deemed to have been declared) in any fiscal year. For McDermott financial reporting purposes the Participating Preferred Stock and the Non-Voting Preferred Stock are considered constructively retired.

On December 5, 1995, MII designated 702,652 shares of its authorized but unissued Preferred Stock as Series D Participating Preferred Stock in connection with its adoption of a new Stockholders Rights Plan on December 30, 1995. As of March 31, 1999, there were no shares of Series D Participating Preferred Stock outstanding.

The issuance of additional MII 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 MII without stockholder approval. The issuance is limited 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 MII Common Stock as to dividends and upon liquidation.

MII Rights MII has a Stockholder Rights Plan pursuant to which each holder of Common Stock has one Right for each outstanding share of Common Stock held. The Rights currently trade with the Common Stock and each Right entitles the holder thereof to purchase one one-hundredth of a share of MII Series D Participating Preferred Stock for \$50 per share subject to anti-dilution adjustments. The Rights become exercisable and detach from the Common Stock within 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 15 percent or more of the outstanding Common Stock (an "Acquiring Person"). Once exercisable, each Right entitles the holder thereof (other than an Acquiring Person) to purchase at the \$50 exercise price that number of shares of Common Stock having a market value equal to twice the exercise price. If MII 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 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 MII at a price of \$0.01 per Right for a specified period of time after a person or group becomes an Acquiring Person. The Stockholder Rights Plan, which was amended and restated on April 15, 1999, will expire on January 2, 2001.

NOTE 10 - STOCK PLANS

1996 Officer Long-Term Incentive Plan - A total of 1,508,164 shares of Common Stock (including shares that were not awarded under predecessor plans) are available for stock option grants and restricted stock awards to officers and key employees under this plan at March 31, 1999. The plan permits the grant of nonqualified stock options, incentive stock options and restricted stock. Options to purchase shares are granted at not 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 not more than ten years after the date of the grant. Under the plan, eligible employees may be granted rights to purchase shares of Common Stock at par value (\$1.00 per share), which shares are subject to restrictions on transfer that lapse at such times and circumstances as specified when granted. As of March 31, 1999, 801,705 shares of Common Stock available for award may be granted as restricted stock. During fiscal years 1999 and 1998, performance-based restricted stock awards were granted to certain officers and key employees under the plan. Under the provisions of the performance-based awards, no shares are issued at the time of the initial award, and the number of shares which will ultimately be issued shall be determined based on the change in the market value of the Common Stock over a specified performance period. The performance-based awards in fiscal years 1999 and 1998 were represented by initial notional grants totaling 129,510 and 86,400 rights to purchase restricted shares of Common Stock, respectively. These rights had weighted average fair values of \$28.52 and \$33.00 on their respective dates of grant during fiscal years 1999 and 1998. Through March 31, 1999, a total of 1,121,940 shares of restricted stock (including 171,930 shares issued in fiscal year 1997 with a weighted average fair value of \$19.92 per share) have been issued under the Plan (and a predecessor plan). No restricted shares were issued in fiscal years 1999 or 1998.

1997 Director Stock Program - A total of 91,200 shares of Common Stock (including approved shares that were not awarded under a predecessor plan) are available for grants of options, and rights to purchase restricted shares, to non-employee directors under this program at March 31, 1999. 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), which shares are subject to restrictions on transfer that lapse at the end of such term. Through March 31, 1999, a total of 19,750 shares of restricted stock have been issued under the 1997 Director Stock Plan (and its predecessor plan).

1992 Senior Management Stock Option Plan - Under this 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 not 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 not more than ten years after the date of grant.

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

The following table summarizes activity for MII's stock option plans (share data in thousands):

	1999		1998		1997	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding, April 1	3,904	\$23.66	5,260	\$22.55	4,449	\$22.72
Granted	651	\$29.40	363	\$33.99	909	\$21.64
Exercised	(187)	\$19.76	(1,451)	\$21.68	(23)	\$17.27
Cancelled/forfeited	(123)	\$21.83	(268)	\$26.67	(75)	\$23.06
Outstanding, March 31	4,245	\$24.76	3,904	\$23.66	5,260	\$22.55
Exercisable, March 31	3,101	\$23.82	2,358	\$22.95	3,430	\$22.88

The following tables summarize the range of exercise prices and the weighted average remaining contractual life of the options outstanding and the range of exercise prices for the options exercisable at March 31, 1999 (share data in thousands):

Options Outstanding			
Range of Exercise Prices	Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted-Average Exercise Price
\$ 19.31 - \$ 24.00	1,857	6.0	\$21.26
\$ 24.13 - \$ 29.06	1,383	4.4	\$24.90
\$ 29.38 - \$ 38.25	1,005	4.4	\$31.05
	-----		
\$ 19.31 - \$ 38.25	4,245	5.1	\$24.76
	=====		

Options Exercisable		
Range of Exercise Prices	Exercisable	Weighted-Average Exercise Price
\$ 19.31 - \$ 24.00	1,492	\$21.37
\$ 24.13 - \$ 29.06	1,383	\$24.90
\$ 29.38 - \$ 34.00	226	\$33.31
	-----	
\$ 19.31 - \$ 34.00	3,101	\$23.82
	=====	

As discussed in Note 1, McDermott applies APB 25 and related interpretations in accounting for its stock-based compensation plans. Charges to income related to stock plan awards totaled approximately \$4,276,000, \$6,288,000 and \$7,273,000 for the fiscal years ended March 31, 1999, 1998 and 1997, respectively. If McDermott had accounted for its stock plan awards using the alternative fair value method of accounting under SFAS 123, "Accounting for Stock-Based Compensation," its net income (loss) and earnings (loss) per share would have been the pro forma amounts indicated as follows:

	1999	1998	1997
	-----	-----	-----
	(In thousands, except per share data)		
Net income (loss)			
As reported	\$153,362	\$215,690	\$(206,105)
Pro forma	\$148,629	\$214,991	\$(207,206)
Basic earnings (loss) per share:			
As reported	\$ 2.60	\$ 3.74	\$ (3.95)
Pro forma	\$ 2.52	\$ 3.73	\$ (3.97)
Diluted earnings (loss) per share:			
As reported	\$ 2.54	\$ 3.48	\$ (3.95)
Pro forma	\$ 2.46	\$ 3.48	\$ (3.97)

The above pro forma information is not indicative of future pro forma amounts. SFAS 123 does not apply to awards prior to fiscal year 1996 and additional awards in future years are anticipated. The fair value of each option grant was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	1999	1998	1997
	-----	-----	-----
Risk-free interest rate	4.67%	5.48%	6.27%
Volatility factor of the expected market price of MII's common stock	.46	.36	.36
Expected life of the option in years	3.5	3.6	5.0
Expected dividend yield of MII's common stock	0.8%	0.6%	1.0%

The weighted average fair value of the stock options granted in fiscal years 1999, 1998 and 1997 was \$10.80, \$10.85 and \$8.23, respectively.

Thrift Plan - On November 12, 1991 and June 5, 1995, respectively, a maximum of 5,000,000 of the authorized and unissued shares of each of the MII and JRM Common Stock were reserved for issuance. The stock was reserved for the employer match for employee contributions to the Thrift Plan for Employees of McDermott Incorporated and Participating Subsidiary and Affiliated Companies (the "Thrift Plan"). Such employer contributions equal 50% of the first 6% of compensation, as defined in the Thrift 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 1999, 1998 and 1997, 229,245, 191,058 and 306,089 shares, respectively, of MII's Common Stock were issued as employer contributions pursuant to the Thrift Plan. During fiscal years 1999, 1998 and 1997, 68,104, 65,727 and 77,112 shares, respectively, of JRM's Common Stock were issued as employer contributions pursuant to the Thrift Plan. At March 31, 1999, 2,896,542 shares of MII's Common Stock and 4,708,701 shares of JRM Common Stock remained available for issuance.

#### NOTE 11 - CONTINGENCIES AND COMMITMENTS

Investigations and Litigation - In March 1997, MII and JRM, with the help of outside counsel, began an investigation into allegations of wrongdoing by a limited number of former employees of MII and JRM and others. The allegations concerned the heavy-lift business of JRM's HeereMac joint venture ("HeereMac") with Heerema Offshore Construction Group, Inc. ("Heerema"). Upon becoming aware of these allegations, MII and JRM notified authorities, including the Antitrust Division of the U.S. Department of Justice and the European Commission. As a result of MII's and JRM's prompt disclosure of the allegations, both companies and their officers, directors and employees at the time of the disclosure were granted immunity from criminal prosecution by the Department of Justice for any anti-competitive acts involving worldwide heavy-lift activities.

After receiving the allegations, JRM initiated action to terminate its interest in HeereMac, and, on December 19, 1997, JRM's co-venturer in the joint venture, Heerema, acquired JRM's interest in exchange for cash and title to

several pieces of equipment. On December 21, 1997, HeereMac and one of its employees pled guilty to criminal charges by the Department of Justice that they and others had participated in a conspiracy to rig bids in connection with the heavy-lift business of HeereMac in the Gulf of Mexico, North Sea and Far East. HeereMac and the HeereMac employee were fined \$49,000,000 and \$100,000, respectively. As part of the plea, both HeereMac and certain employees of HeereMac agreed to cooperate fully with the Department of Justice investigation. Neither MII, JRM nor any of their officers, directors or employees was a party to those proceedings.

MI and JRM have cooperated and are continuing to cooperate with the Department of Justice in its investigation. The Department of Justice also has requested additional information from the companies relating to possible anti-competitive activity in the marine construction business of McDermott-ETPM East, Inc., one of the operating companies within JRM's former McDermott-ETPM joint venture with ETPM S.A., a French company. In connection with the termination of the McDermott-ETPM joint venture on April 3, 1998, JRM assumed 100% ownership of McDermott-ETPM East, Inc., which has been renamed J. Ray McDermott Middle East, Inc.

In June 1998, Phillips Petroleum Company (individually and on behalf of certain co-venturers) and certain related entities (the "Phillips Plaintiffs") filed a lawsuit in the United States District Court for the Southern District of Texas against MI, JRM, MI, McDermott-ETPM, Inc., certain JRM subsidiaries, HeereMac, Heerema, certain Heerema affiliates, and others alleging that the defendants engaged in anti-competitive acts in violation of Sections 1 and 2 of the Sherman Act and Sections 15.05 (a) and (b) of the Texas Business and Commerce Code, engaged in fraudulent activity and tortiously interfered with the plaintiffs' businesses in connection with certain offshore transportation and installation projects in the Gulf of Mexico, North Sea and Far East (the "Phillips Litigation"). In December 1998, Den norske stats oljeselskap a.s., individually and on behalf of certain of its ventures and its participants, filed a similar lawsuit in the same court. In addition to seeking injunctive relief, actual damages and attorneys' fees, the plaintiffs in the Phillips Litigation have requested punitive as well as treble damages. In January 1999, the court dismissed without prejudice, due to the court's lack of subject matter jurisdiction, the claims of the Phillips Plaintiffs relating to alleged injuries sustained on any foreign projects.

In June 1998, Shell Offshore, Inc. and certain related entities also filed a lawsuit in the United States District Court for the Southern District of Texas against MI, JRM, MI, McDermott-ETPM, Inc., certain JRM subsidiaries, HeereMac, Heerema and others alleging that the defendants engaged in anti-competitive acts in violation of Sections 1 and 2 of the Sherman Act (the "Shell Litigation"). Subsequent thereto, Amoco Production Company and B.P. Exploration & Oil, Inc.; Amerada Hess Corporation; Conoco Inc. and certain of its affiliates; Texaco Exploration and Production Inc. and certain of its affiliates; Elf Exploration UK PLC and Elf Norge a.s.; Burlington Resources Offshore, Inc. and The Louisiana Land & Exploration Company; Marathon Oil Company and certain of its affiliates; VK-Main Pass Gathering Company, L.L.C., Green Canyon Pipeline Company, L.L.C. and Delos Gathering Company, L.L.C.; Chevron U.S.A. Inc. and Chevron Overseas Petroleum Inc.; Shell U.K. Limited and certain of its affiliates; Woodside Energy, Ltd; and Saga Petroleum, S.A. intervened (acting for themselves and, if applicable, on behalf of their respective co-venturers and for whom they operate) as plaintiffs in the Shell Litigation. Also, in December 1998, Total Oil Marine p.l.c. and Norsk Hydro Produksjon a.s., individually and on behalf of their respective co-venturers, filed similar lawsuits in the same court, which lawsuits were consolidated with the Shell Litigation. In addition to seeking injunctive relief, actual damages and attorneys' fees, the plaintiffs in the Shell Lawsuit request treble damages.

MI and JRM are also cooperating with a Securities and Exchange Commission ("SEC") investigation into whether the companies may have violated U.S. securities laws in connection with, but not limited to, the matters described above. MI and JRM are subject to a judicial order entered in 1976, with the consent of MI (which at that time was the parent of the McDermott group of companies), pursuant to an SEC complaint (the "Consent Decree"). The Consent Decree prohibits the companies from making false entries in their books, maintaining secret or unrecorded funds or using corporate funds for unlawful purposes. Violations of the Consent Decree could result in substantial civil and/or criminal penalties to the companies.

As a result of the initial allegations of wrongdoing in March 1997, both MII and JRM formed and continue to maintain special committees of their Board of Directors to monitor and oversee the companies' investigation into all of these matters.

It is not possible to predict the ultimate outcome of the Department of Justice investigation, the SEC investigation, the companies' internal investigation, the above-referenced lawsuits, or any actions that may be taken by others as a result of HeereMac's guilty plea or otherwise. However, these matters could result in civil and criminal liability and have a material adverse effect on McDermott's consolidated financial position and results of operations.

B&W and Atlantic Richfield Company are defendants in lawsuits filed by Donald F. Hall, Mary Ann Hall and others in the United States District Court for the Western District of Pennsylvania involving over 120 separate cases relating to the operation of two former nuclear fuel processing facilities located in Pennsylvania (the "Hall Litigation"), alleging, among other things, that they suffered personal injury and other damages as a result of radioactive emissions from these facilities. In September 1998, a jury found B&W and Atlantic Richfield Company liable to the plaintiffs in the first eight cases brought to trial, awarding \$36,700,000 in compensatory damages. B&W believes that adequate insurance is available to meet possible liability in this matter. However, the jury verdict is not final, and a number of post trial motions are pending contesting this contingency. Both B&W and its insurers have filed actions seeking a judicial determination as to the amount of insurance coverage under the insurance policies covering these facilities, available for this award and all other claims. B&W has filed an action seeking a judicial determination of this matter, which is currently pending in a Pennsylvania court. Management believes that the award and all other claims will be resolved within the limits and coverage of such insurance policies; however, no assurance on insurance coverage or financial impact if limits of coverage are exceeded can be given. In connection with the foregoing, B&W settled all pending and future punitive damage claims represented by the plaintiffs' lawyers in the Hall Litigation for \$8,000,000 and seeks reimbursement of this amount from other parties.

Two purported class actions have been filed in the Civil District Court for the Parish of Orleans, State of Louisiana, by alleged public shareholders of JRM, challenging MII's initial proposal to acquire the publicly traded shares of JRM Common Stock in a stock for stock merger. On May 7, 1999, MII and JRM announced that they had entered into a merger agreement pursuant to which MII will acquire all of such publicly traded shares of JRM Common Stock for \$35.62 per share pursuant to a cash tender offer followed by a second step merger. On the same day, the Court entered an order consolidating the two actions under the caption *In re J. Ray McDermott Shareholder Litigation*. There have been no further proceedings in either of the actions to date. JRM and MII believe that the actions are without merit and intend to contest these suits vigorously.

Additionally, due to the nature of its business, McDermott is, from time to time, involved in routine litigation related to its business activities. It is management's opinion that none of this litigation will have a material adverse effect on McDermott's consolidated financial position or results of operations.

Products Liability - McDermott has personal injury claims related to previously sold asbestos-containing products, and expects that it will continue to receive claims in the future. The personal injury claims are similar in nature, the primary difference being the type of alleged injury or illness suffered by the plaintiff.

Personal injury claim activity for the years ended March 31, 1999 and 1998 was as follows:

	1999	1998
	-----	-----
Claims outstanding, beginning of fiscal year	43,826	45,253
New claims	24,278	30,004
Settlements	(26,383)	(31,431)
	-----	-----
Claims outstanding, end of fiscal year	41,721	43,826
	-----	-----

Estimated liabilities for pending and future non-employee products liability asbestos claims are derived from McDermott's claims history and constitute management's best estimate of such future cost, including recoverability from insurers. Inherent in the estimate of such liabilities are expected trend claim severity and frequency and other factors which may vary significantly as claims are filed and settled.

McDermott has insurance coverage for asbestos products liability claims which is subject to varying insurance limits that are dependent upon the year involved. McDermott has agreements with the majority of its principal insurers concerning the method of allocation of claim payments to the years of coverage. Pursuant to those agreements, McDermott negotiates and settles these claims and bills the appropriate amounts to the insurers. McDermott has recognized a provision to the extent that recovery of these amounts from the insurers is not probable. An analysis of insurers providing coverage of the estimated liabilities is used to estimate insurance recoveries.

McDermott is currently in litigation with certain excess insurance carriers disputing specific conditions of the policies' available coverage. McDermott believes that recovery of amounts under the policies is probable based upon McDermott's history of negotiating settlements with other insurance carriers.

By the end of fiscal year 1999, McDermott concluded that its forecast decline in claims in the next fiscal year was not likely. As a result, during fiscal year 1999, McDermott revised its estimate of liability for pending and future non-employee products liability asbestos claims and recorded an additional liability of \$817,662,000, additional estimated insurance recoveries of \$732,477,000 and a loss of \$85,185,000 for estimated future claims in which recovery from insurance carriers was not determined to be probable. The revised forecast includes management's expectation that new claims will conclude within the next thirteen years, that there will be a significant decline in new claims received after four years, and that the average cost per claim will continue to increase only moderately.

In fiscal year 1997, based on an increasing number of claims and management's evaluation of the increase, McDermott recorded an additional estimated liability and estimated related insurance recoveries for future non-employee products asbestos claims and recorded a loss of \$72,400,000 for estimated future claims for which recovery from insurers was not determined to be probable.

McDermott had recorded the following with respect to asbestos products liability claims and related insurance recoveries at March 31, 1999 and 1998:

	1999	1998
	-----	-----
	(In thousands)	
Asbestos products liability:		
Current	\$ 240,000	\$171,300
Non-current	1,322,363	715,391
	-----	-----
Total	\$1,562,363	\$886,691
	-----	-----

Asbestos products liability insurance recoverable:		
Current	\$ 199,750	\$143,588
Non-current	1,167,113	581,070
	-----	-----
Total	\$1,366,863	\$724,658
	-----	-----

Future costs to settle claims, as well as the number of claims, could be adversely affected by changes in judicial rulings and influences beyond McDermott's control. Accordingly, changes in the estimates of future asbestos products liability and insurance recoverables and differences between the proportion of any additional asbestos products liabilities covered by insurance, and that experienced in the past could result in material adjustments to the results of operations 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, management decided to close B&W's nuclear manufacturing facilities in Parks Township, Armstrong County, Pennsylvania (the "Parks Facilities"). Decontamination is proceeding as permitted by the existing NRC license. A decommissioning plan was submitted to the NRC for review and approval during January 1996. The facilities were transferred to BWXT in fiscal year 1998. BWXT's management reached an agreement with the NRC in fiscal year 1999 on a plan that provides for the completion of facilities dismantlement and soil restoration by 2001 and license termination in 2002. BWXT's management expects to request approval from the NRC to release the site for unrestricted use at that time. At March 31, 1999, the remaining provision for the decontamination, decommissioning and the closing of these facilities was \$15,811,000.

At March 31, 1999 and 1998, McDermott had total environmental reserves (including provision for the facilities discussed above), of \$31,568,000 and \$46,164,000, of which \$19,835,000 and \$9,934,000, respectively, were included in current liabilities. Estimated recoveries of these costs are included in environmental and products liabilities recoverable at March 31, 1999. Inherent in the estimates of such reserves and recoveries are expected levels of contamination, decommissioning costs and recoverability from other parties, which may vary significantly as decommissioning activities progress. Accordingly, changes in estimates could result in a material adjustment to operating results, and the ultimate loss may differ materially from amounts provided in the consolidated financial statements.

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

The Department of Environmental Protection of the Commonwealth of Pennsylvania, ("PADEP"), by letter dated March 19, 1994, advised The Babcock & Wilcox Company that it would seek monetary sanctions, and remedial and monitoring relief, related to the Parks Facilities. The relief sought related to potential groundwater contamination of the previous operations of the facilities. PADEP has advised BWXT that it does not intend to assess any monetary sanctions provided that BWXT continues its remediation program of the Parks Facilities.

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, 1999 are as follows:

Fiscal year -----	Amount -----
2000	\$12,688,000
2001	\$ 9,721,000
2002	\$ 5,418,000
2003	\$ 4,914,000
2004	\$ 2,649,000
thereafter	\$36,975,000.

Total rental expense for fiscal years 1999, 1998 and 1997 was \$96,816,000, \$93,057,000 and \$92,534,000, respectively. These expense amounts include contingent rentals and are net of sublease income, neither of which are material.

Other - McDermott 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 maintains liability and property insurance against such risk and in such amounts as it considers adequate. However, certain risks are either not insurable or insurance is available only at rates which MII considers uneconomical.

McDermott is contingently liable under standby letters of credit totaling \$402,771,000 at March 31, 1999, all of which were issued in the normal course of business. These standby letters of credit include \$16,434,000 issued on behalf of a former unconsolidated joint venture. McDermott has guaranteed \$9,243,000 of loans to and \$1,168,000 of standby letters of credit issued by unconsolidated foreign joint ventures of McDermott at March 31, 1999. In addition, McDermott has a limited guarantee of approximately \$51,000,000 of debt incurred by an unconsolidated foreign joint venture. At March 31, 1999, McDermott had pledged approximately \$48,760,000 fair value of government obligations and corporate bonds to secure payments under and in connection with certain reinsurance agreements.

#### NOTE 12 - RELATED PARTY TRANSACTIONS

Under a non-competition agreement in connection with the acquisition of OPI, a director of JRM, who resigned in April 1996, received \$1,500,000 in each of fiscal years 1999, 1998 and 1997 and will receive an additional payment of \$1,500,000 in the next fiscal year.

In fiscal year 1995, JRM entered into an office sublease with an affiliate of one of its directors (who resigned in April 1996). Such sublease expired in March 1997. During fiscal year 1997, the affiliate paid \$216,000 under the sublease. Under another agreement, JRM paid \$576,000 to the affiliate in fiscal year 1997 and reimbursed the affiliate for out-of-pocket expenses for the management and operation of JRM's offshore producing oil and gas property.

JRM entered into agreements with an affiliate of another director (whose term as director ended in August 1997) pursuant to which JRM acquired interests in certain offshore oil and gas 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. JRM also 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 in production, and JRM earned approximately \$174,000, \$1,262,000 and \$1,093,000 in fiscal years 1999, 1998 and 1997, respectively. In addition, during fiscal year 1998, JRM sold its investment in common stock of this affiliate and its interest in a limited partnership, which is also an affiliate of this director. JRM also entered into agreements with two affiliates of the same former director to design, fabricate and install several offshore pipelines and structures. The value of these agreements was approximately \$82,000,000. At March 31, 1997, all work under these agreements had been completed and invoiced.

See Note 3 for transactions with unconsolidated affiliates.

NOTE 13 - FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

McDermott's Marine Construction Services segment's principal customers are the offshore oil, natural gas and hydrocarbon processing industries and other marine construction companies. The principal customers of the Power Generation Systems segment are principally the electric power generation industry (including government-owned utilities and independent power producers), and the pulp and paper and other process industries, such as oil refineries and steel mills. The primary customer of the Government Operations segment is the U.S. Government (including its contractors). The principal customers of Industrial Operations are oil and natural gas producers, electric power generation industry and petrochemical and chemical processing industries. These concentrations of customers may impact McDermott'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. In addition, McDermott and its customers operated worldwide giving rise to exposure to risks associated with the economic and political forces of various countries and geographic areas. (See Note 17 for information about McDermott's operations in different geographic areas.) However, McDermott's management believes that the portfolio of receivables is well diversified and that this diversification minimizes any potential credit risk. Receivables are generally not collateralized.

McDermott believes that its provision for possible losses on uncollectible accounts receivable is adequate for its credit loss exposure. At March 31, 1999 and 1998, the allowance for possible losses deducted from Accounts receivable-trade on the accompanying balance sheet was \$5,544,000 and \$12,140,000, respectively.

NOTE 14 - INVESTMENTS

The following is a summary of available-for-sale debt securities at March 31, 1999:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	-----	-----	-----	-----
(In thousands)				
U.S. Treasury securities and obligations of U.S. Government agencies	\$472,217	\$2,326	\$1,471	\$473,072
Corporate notes and bonds	228,642	679	202	229,119
Other debt securities	136,259	104	63	136,300
<b>Total</b>	<b>\$837,118</b>	<b>\$3,109</b>	<b>\$1,736</b>	<b>\$838,491</b>

The amortized cost and estimated fair value amounts of debt securities at March 31, 1999 include \$14,171,000 in other debt securities which are reported as cash equivalents. At March 31, 1999, McDermott's investments also included \$82,579,000 in time deposits.

The following is a summary of available-for-sale debt securities at March 31, 1998:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	-----	-----	-----	-----
(In thousands)				
U.S. Treasury securities and obligations of U.S. Government agencies	\$519,114	\$1,355	\$1,026	\$519,443
Corporate notes and bonds	136,329	252	91	136,490
Other debt securities	123,457	102	41	123,518
<b>Total</b>	<b>\$778,900</b>	<b>\$1,709</b>	<b>\$1,158</b>	<b>\$779,451</b>

At March 31, 1998, McDermott's investments also included \$294,040,000 in time deposits.

Proceeds, gross realized gains and gross realized losses on sales of available-for-sale debt securities were as follows:

Fiscal year -----	Proceeds -----	Gross Realized Gains -----	Gross Realized Losses -----
1999	\$339,478,000	\$1,792,000	\$125,000
1998	\$ 95,430,000	\$ 118,000	\$766,000
1997	\$156,827,000	\$ 290,000	\$ 96,000

The amortized cost and estimated fair value of available-for-sale debt securities at March 31, 1999, by contractual maturity, are as follows:

	Amortized Cost -----	Estimated Fair Value -----
	(In thousands)	
Due in one year or less	\$ 281,701	\$282,008
Due after one through three years	480,808	482,478
Due after three years	74,609	74,005
Total	\$ 837,118	\$838,491

#### NOTE 15 - DERIVATIVE FINANCIAL INSTRUMENTS

McDermott operates worldwide 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 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, 1999, McDermott had forward exchange contracts to purchase \$93,700,000 in foreign currencies (primarily Canadian Dollars) and to sell \$18,626,000 in foreign currencies (primarily Canadian Dollars), at varying maturities from fiscal year 2000 through 2002. At March 31, 1998, McDermott had forward exchange contracts to purchase \$145,923,000 in foreign currencies (primarily Canadian Dollars and Pound Sterling), and to sell \$50,702,000 in foreign currencies (primarily Canadian Dollars and Singapore Dollars), at varying maturities from fiscal year 1999 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 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, 1999 and 1998, McDermott had deferred gains of \$137,000 and \$958,000, respectively, and deferred losses of \$5,377,000 and \$374,000, respectively, related to forward exchange contracts which will principally be recognized in accordance with the percentage of completion method of accounting.

McDermott 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 16 - FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate their fair values.

Investments: 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.

Long and short-term debt: The fair values of debt instruments are based on quoted market prices. Where quoted prices are not available, the fair values are based on the present value of future 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 MI 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, 1999 and 1998, McDermott had net forward exchange contracts outstanding to purchase foreign currencies with notional values of \$75,074,000 and \$95,221,000 and fair values of \$72,153,000 and \$97,181,000, 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, 1999, McDermott had no interest rate swaps outstanding. At March 31, 1998, McDermott had an interest rate swap outstanding on current notional principal of \$12,200,000 with a fair value of (\$25,000), which represented the estimated amount McDermott would have had to pay to terminate the agreement.

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

	March 31, 1999		March 31, 1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Balance Sheet Instruments				
Cash and cash equivalents	\$181,503	\$181,503	\$ 277,876	\$ 277,876
Investments	906,899	906,899	1,073,491	1,073,491
Debt excluding capital leases	353,803	365,774	745,524	794,296
Subsidiary's redeemable preferred stocks	-	-	155,358	184,191

#### NOTE 17 - SEGMENT REPORTING

McDermott's reportable segments are Marine Construction Services, Power Generation Systems, Government Operations and Industrial Operations. These segments are managed separately and are unique in technology, services and customer class.

Marine Construction Services, which includes the results of JRM, supplies worldwide services for the offshore oil and gas exploration, production and hydrocarbon processing industries and to other marine construction companies. Principal activities include the design, engineering, fabrication and installation of offshore drilling and production platforms, specialized structures, modular facilities, marine pipelines and subsea production systems. JRM also provides project management services, engineering services, procurement activities, and removal, salvage and refurbishment services of offshore fixed platforms.

Power Generation Systems supplies engineered-to-order services, products and systems for energy conversion, and fabricates replacement nuclear steam generators and environmental control systems. In addition, this segment provides aftermarket services including replacement parts, engineered upgrades, construction, maintenance and field technical services to electric power plants and industrial facilities. This segment also

provides power through cogeneration, refuse-fueled power plants and other independent power producing facilities.

Government Operations supplies nuclear reactor components and nuclear fuel assemblies to the U.S. Government, manages and operates government-owned facilities and supplies commercial nuclear environmental services and other government and commercial nuclear services.

Industrial Operations is comprised of the engineering and construction activities and plant outage maintenance of certain Canadian operations and manufacturing of auxiliary equipment such as air-cooled heat exchangers and replacement parts. Industrial Operations also includes contract research activities.

Intersegment sales are accounted for at prices which are generally established by reference to similar transactions with unaffiliated customers. Reportable segments are measured based on operating income exclusive of general corporate expenses, non-employee products liability asbestos claims provisions, contract and insurance claims provisions, legal expenses and gains on sales of corporate assets. Other reconciling items to income (loss) before provision for income taxes are interest income, interest expense, minority interest and other-net. Assets excluded from segment assets are primarily insurance recoverables for products liability claims, excess cost over fair value of net assets purchased, investments in debt securities and prepaid pension costs. Amortization of the excess of cost over fair value of net assets purchased was allocated to the reportable segments for all years presented.

On May 7, 1998, JRM sold its interest in McDermott Engineering (Europe) Limited. Management also intends to exit other European engineering operations. In fiscal years 1999, 1998 and 1997, these operations had revenues of \$89,347,000, \$288,687,000 and \$294,780,000, respectively, and operating income (loss) of (\$7,138,000), \$6,177,000, and \$9,739,000, respectively. Operating income (loss) for fiscal years 1999 and 1998 include closure costs and other disposition losses of \$2,818,000 and \$4,200,000, respectively.

In fiscal years 1999, 1998 and 1997, the U.S. Government accounted for approximately 12%, 10% and 11%, respectively, of McDermott's total revenues. These revenues are principally included in the Government Operations segment.

In fiscal year 1999, a gain of \$37,353,000 recognized from the termination of the McDermott-ETPM joint venture increased Marine Construction Services' segment income. This increase was partially offset by a net decrease to segment income of \$17,749,000, primarily pertaining to impairment losses on fabrication facilities and goodwill. A gain of \$5,214,000 recognized from the sale of a manufacturing facility resulted in an increase in Power Generation Systems' segment income in fiscal 1999.

In fiscal year 1998, asset impairment losses of \$280,171,000, primarily due to the write-off of \$262,901,000 of goodwill associated with the acquisition of OPI and the write-down of marine vessels included in property, plant and equipment in the amount of \$9,891,000, decreased Marine Construction Services' segment income. These decreases were offset by increases in segment income pertaining to the termination of the HeereMac joint venture, a gain of \$224,472,000 recognized from the termination and \$61,637,000 from the distribution of earnings. Asset impairment losses, primarily associated with manufacturing facilities, resulted in a decrease in Power Generation Systems' segment income of \$6,395,000 in fiscal 1998. A net increase in Industrial Operations' income of \$124,816,000 was a result of gains on the sale of McDermott's interest in Sakhalin Energy Investment Company Ltd. and Universal Fabricators Incorporated, offset by impairment losses, primarily the write-off of goodwill associated with the acquisition of MECL.

In fiscal year 1997, asset gains net of impairment losses resulted in a decrease in Marine Construction Services' segment operating loss of \$29,021,000. Also in fiscal year 1997, the write-down of an equity investment and asset impairment losses, partially offset by a gain from the sale of certain assets, resulted in an increase in Power Generation Systems' segment loss of \$20,251,000. An asset impairment loss resulted in an increase in Industrial Operations loss of \$11,575,000 in fiscal year 1997.

Segment Information for the Three Fiscal Years Ended March 31, 1999.

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

	1999	1998	1997
	-----	-----	-----
	(In thousands)		
REVENUES / (1) /			
Marine Construction Services	\$1,279,570	\$1,855,486	\$1,408,469
Power Generation Systems	1,066,217	1,142,721	985,430
Government Operations	382,706	370,519	373,051
Industrial Operations	427,520	337,787	458,116
Adjustments and Eliminations	(6,028)	(31,878)	(74,216)
	-----		
Total Revenues	\$3,149,985	\$3,674,635	\$3,150,850
	-----		
/ (1) / Segment revenues are net of the following intersegment transfers and other adjustments:			
Marine Construction Services Transfers	\$ 3,233	\$ 20,743	\$ 24,530
Power Generation Systems Transfers	731	5,027	5,057
Government Operations Transfers	506	4,070	7,032
Industrial Operations Transfers	236	5,925	18,324
Adjustments and Eliminations	1,322	(3,887)	19,273
	-----		
Total	\$6,028	\$31,878	\$74,216
	-----		

## OPERATING INCOME (LOSS):

	1999	1998	1997
	(In thousands)		
Segment Operating Income (Loss):			
Marine Construction Services	\$126,482	\$107,122	\$ 10,819
Power Generation Systems	90,318	82,431	(34,584)
Government Operations	39,353	35,816	32,458
Industrial Operations	16,906	4,679	(30,641)
Total Segment Operating Income (Loss)	\$273,059	\$230,048	\$ (21,948)
Gain (Loss) on Asset Disposal and Impairments - Net:			
Marine Construction Services	\$ 18,620	\$ (40,119)	\$ 29,021
Power Generation Systems	4,465	(6,086)	(19,205)
Government Operations	183	523	396
Industrial Operations	(234)	128,239	(11,858)
Total Gain (Loss) on Asset Disposal and Impairments - Net	\$ 23,034	\$ 82,557	\$ (1,646)
Income (Loss) from Investees: /(1)/			
Marine Construction Services	\$ 10,670	\$ 70,236	\$ (7,833)
Power Generation Systems	(4,733)	7,541	(347)
Government Operations	4,088	4,236	3,630
Industrial Operations	(1,646)	3,376	737
Total Income (Loss) from Investees	\$ 8,379	\$ 85,389	\$ (3,813)
SEGMENT INCOME (LOSS): /(2)/			
Marine Construction Services	\$155,772	\$137,239	\$ 32,007
Power Generation Systems	90,050	83,886	(54,136)
Government Operations	43,624	40,575	36,484
Industrial Operations	15,026	136,294	(41,762)
Total Segment Income (Loss)	304,472	397,994	(27,407)
Other Unallocated Items	(51,005)	(5,286)	(72,382)
General Corporate Expenses-Net	(36,051)	(37,251)	(47,456)
Total Operating Income (Loss)	\$217,416	\$355,457	\$ (147,245)
/(1)/ Other unallocated items includes loss from investees of \$7,000 and \$285,000 for fiscal years 1998 and 1997, respectively.			
/(2)/ Other unallocated items include the following:			
Non-Employee Products Asbestos			
Claim Provisions	\$ (39,650)	\$ -	\$ (55,692)
Contract and Insurance Claim Provisions	-	-	(12,506)
Employee Benefits & Insurance Income (Expense)	18,519	7,303	2,538
Legal Expenses	(13,133)	(4,729)	(4,354)
General and Administrative Expenses	(9,623)	(2,422)	-
Other	(7,118)	(5,438)	(2,368)
Total	\$ (51,005)	\$ (5,286)	\$ (72,382)

	1999	1998	1997
	(In thousands)		
<b>SEGMENT ASSETS</b>			
Marine Construction Services	\$ 586,003	\$ 874,143	\$1,313,802
Power Generation Systems	558,951	559,162	537,937
Government Operations	211,683	178,958	187,031
Industrial Operations	114,656	124,547	228,280
<b>Total Segment Assets</b>	<b>1,471,293</b>	<b>1,736,810</b>	<b>2,267,050</b>
Other Assets	1,570,374	1,280,975	1,396,955
Corporate Assets	1,263,853	1,483,345	935,477
<b>Total Assets</b>	<b>\$4,305,520</b>	<b>\$4,501,130</b>	<b>\$4,599,482</b>
<b>CAPITAL EXPENDITURES</b>			
Marine Construction Services /(1)/	\$ 84,416	\$ 57,704	\$ 66,082
Power Generation Systems	11,847	9,315	14,886
Government Operations	11,095	4,312	4,128
Industrial Operations	4,093	3,278	7,329
<b>Segment Capital Expenditures</b>	<b>111,451</b>	<b>74,609</b>	<b>92,425</b>
Corporate and Other Capital Expenditures	336	1,040	767
<b>Total Capital Expenditures</b>	<b>\$ 111,787</b>	<b>\$ 75,649</b>	<b>\$ 93,192</b>
<b>DEPRECIATION AND AMORTIZATION</b>			
Marine Construction Services	\$ 56,761	\$ 93,843	\$ 99,675
Power Generation Systems	21,899	19,569	14,842
Government Operations	13,265	12,481	13,609
Industrial Operations	4,885	6,712	10,017
<b>Segment Depreciation and Amortization</b>	<b>96,810</b>	<b>132,605</b>	<b>138,143</b>
Corporate and Other Depreciation and Amortization	4,580	9,696	13,438
<b>Total Depreciation and Amortization</b>	<b>\$ 101,390</b>	<b>\$ 142,301</b>	<b>\$ 151,581</b>
<b>INVESTMENT IN UNCONSOLIDATED AFFILIATES</b>			
Marine Construction Services	\$ 13,648	\$ 29,069	\$ 72,712
Power Generation Systems	44,248	40,159	34,600
Government Operations	2,282	2,090	2,017
Industrial Operations	2,308	4,965	29,778
<b>Total Investment in Unconsolidated Affiliates</b>	<b>\$ 62,486</b>	<b>\$ 76,283</b>	<b>\$ 139,107</b>

/(1)/ Includes property, plant and equipment of \$33,000,000 in fiscal year 1999 acquired through termination of the McDermott-ETPM joint venture and of \$30,559,000 in fiscal year 1998 acquired through termination of the HeereMac joint venture.

2. Information about McDermott's Product and Service Lines:

	1999	1998	1997
	(In thousands)		
<b>Revenues:</b>			
<b>Marine Construction Services:</b>			
Offshore Operations	\$ 605,024	\$ 743,114	\$ 591,021
Fabrication Operations	376,450	455,306	376,257
Engineering Operations	115,594	276,422	235,672
Procurement Activities	273,308	425,440	240,108
Adjustments and Eliminations	(90,806)	(44,796)	(34,589)
<b>Total</b>	<b>1,279,570</b>	<b>1,855,486</b>	<b>1,408,469</b>
<b>Power Generation Systems:</b>			
<b>Original Equipment Manufacturers' Operations</b>			
Nuclear Equipment Operations	212,999	471,363	385,000
Aftermarket Goods and Services	78,023	89,816	108,498
Operations and Maintenance	791,619	508,895	477,756
Boiler Auxiliary Equipment	41,602	37,988	29,260
Adjustments and Eliminations	85,969	86,355	54,013
	(143,995)	(51,696)	(69,097)
<b>Total</b>	<b>1,066,217</b>	<b>1,142,721</b>	<b>985,430</b>
<b>Government Operations:</b>			
Naval Reactor Program	209,079	202,126	222,697
Nuclear Environmental Services Management & Operation Contracts of U.S. Government Facilities	19,932	26,177	42,709
Other Government Operations	99,053	64,226	13,603
Other Commercial Operations	62,104	78,530	93,725
Adjustments and Eliminations	3,517	10,951	9,001
	(10,979)	(11,491)	(8,684)
<b>Total</b>	<b>382,706</b>	<b>370,519</b>	<b>373,051</b>
<b>Industrial Operations:</b>			
Engineering & Construction	174,894	62,448	146,025
Plant Outage Maintenance	150,263	151,050	144,207
Shipbuilding Operations	-	10,746	80,152
Contract Research	9,172	17,180	23,592
Auxiliary Equipment	93,065	97,640	68,028
All Others	362	31	9,468
Adjustments and Eliminations	(236)	(1,308)	(13,356)
<b>Total</b>	<b>427,520</b>	<b>337,787</b>	<b>458,116</b>
<b>Adjustments and Eliminations</b>	<b>(6,028)</b>	<b>(31,878)</b>	<b>(74,216)</b>
<b>Total Revenues</b>	<b>\$3,149,985</b>	<b>\$3,674,635</b>	<b>\$3,150,850</b>

3. Information about McDermott's Operations in Different Geographic Areas.

	1999	1998	1997
	-----	-----	-----
	(In thousands)		
Revenues / (1) /			
United States	\$1,573,896	\$1,688,388	\$1,431,868
Canada	437,363	264,846	257,285
Indonesia	220,124	230,825	95,127
United Kingdom	133,403	364,894	322,760
Qatar	132,509	264,397	99,617
Myanmar	80,130	110,692	51,014
Mexico	78,496	35,836	36,870
China	72,217	139,403	103,064
Trinidad	57,905	66,460	7,812
India	46,972	32,905	86,398
Thailand	31,674	73,223	43,498
Other Countries	285,296	402,766	615,537
	-----	-----	-----
Total	\$3,149,985	\$3,674,635	\$3,150,850
	-----	-----	-----
Property, Plant and Equipment, net			
United States	\$ 259,549	\$ 280,472	\$ 315,682
Mexico	48,246	23,803	24,303
Indonesia	37,309	13,091	20,853
Canada	31,456	36,275	39,008
Singapore	22,787	20,012	20,974
United Kingdom	8,202	75,956	84,830
Netherlands	-	45,347	33,868
Other Countries	26,412	38,738	60,227
	-----	-----	-----
Total	\$ 433,961	\$ 533,694	\$ 599,745
	-----	-----	-----

/(1)/ Geographic revenues are allocated based on the location of the customer.

NOTE 18 - QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables set forth selected unaudited quarterly financial information for the fiscal years ended March 31, 1999 and 1998:

	1999			
	Q U A R T E R E N D E D			
	JUNE 30, 1998	SEPT. 30, 1998	DEC. 31, 1998	MARCH 31, 1999
	(In thousands, except for per share amounts)			
Revenues	\$819,809	\$779,983	\$800,825	\$749,368
Operating income (loss)	118,413	65,652	46,310	(12,959)
Income (loss) before extraordinary item	121,561	51,615	42,289	(23,384)
Net income (loss)	121,561	51,615	42,289	(62,103)
Earnings (loss) per common share:				
Basic				
Income (loss) before extraordinary item	\$ 2.03	\$ 0.88	\$ 0.72	\$ (0.40)
Net income (loss)	\$ 2.03	\$ 0.88	\$ 0.72	\$ (1.06)
Diluted				
Income (loss) before extraordinary item	\$ 1.88	\$ 0.85	\$ 0.71	\$ (0.40)
Net income (loss)	\$ 1.88	\$ 0.85	\$ 0.71	\$ (1.06)

Pretax results for the quarter ended June 30, 1998 include:

- . a gain on the dissolution of a joint venture of \$37,390,000,
- . a gain on the settlement and curtailment of postretirement benefit plans of \$38,900,000,
- . interest income of \$12,207,000 on domestic tax refunds, and
- . a gain of \$12,000,000 from the sale of assets of a joint venture.

Pretax results for the quarter ended September 30, 1998 include:

- . a loss on the settlement and curtailment of postretirement benefit plans of \$11,258,000,
- . interest income of \$6,423,000 on domestic tax refunds, and
- . an \$8,000,000 settlement of punitive damage claims in a civil suit associated with a Pennsylvania facility formerly operated by McDermott.

Pretax results for the quarter ended December 31, 1998 include:

- . a \$9,600,000 charge to restructure foreign joint ventures.

Pretax results for the quarter ended March 31, 1999 include:

- . an extraordinary loss on the retirement of debt of \$38,719,000,
- . a loss of \$85,185,000 for estimated costs relating to estimated future non-employee asbestos claims,
- . losses of \$21,897,000 related to impairment of assets and goodwill,
- . various provisions of \$20,327,000 related to potential settlements of litigation and contract disputes, and
- . the write-off of \$12,600,000 of receivables from a joint venture.

	1998			
	Q U A R T E R E N D E D			
	JUNE 30, 1997	SEPT. 30, 1997	DEC. 31, 1997	MARCH 31, 1998
	(In thousands, except for per share amounts)			
Revenues	\$928,087	\$920,051	\$901,735	\$924,762
Operating income (loss)	144,794	88,777	89,366	32,520
Net income (loss)	109,860	38,161	50,992	16,677
Earnings (loss) per common share:				
Basic	\$ 1.97	\$ 0.65	\$ 0.88	\$ 0.26
Diluted	\$ 1.79	\$ 0.62	\$ 0.82	\$ 0.25

Pretax results for the quarter ended June 30, 1997 include:

- . a gain of \$96,059,000 from the sale of McDermott's interest in Sakhalin Energy Investment Company, Ltd.

Pretax results for the quarter ended September 30, 1997 include:

- . a gain of \$33,072,000 from the sale of McDermott's interest in Universal Fabricators Incorporated.

Pretax results for the quarter ended December 31, 1997 include:

- . a gain \$223,651,000 and a \$61,637,000 distribution of earnings from the termination of the HeereMac joint venture, and
- . impairment losses of \$275,112,000, including a write-off of goodwill associated with the acquisition of OPI of \$262,901,000.

Pretax results for the quarter ended March 31, 1998 include:

- . losses of \$10,315,000 related to the impairment of assets and related goodwill, and
- . a \$5,419,000 provision for employee severance costs.

## NOTE 19 EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	For the Three Fiscal Years Ended		
	1999	1998	1997
	(In thousands, except shares and per share amounts)		
<b>Basic:</b>			
Income (loss) before extraordinary item	\$ 192,081	\$ 215,690	\$ (206,105)
Dividends on preferred stock, Series C	-	(8,266)	(8,266)
Income (loss) for basic computation	192,081	207,424	(214,371)
Extraordinary item	(38,719)	-	-
Net income (loss) for basic computation	\$ 153,362	\$ 207,424	\$ (214,371)
Weighted average common shares	59,015,091	55,432,949	54,322,804
Basic earnings (loss) per common share:			
Income (loss) before extraordinary item	\$ 3.25	\$ 3.74	\$ (3.95)
Extraordinary item	(0.65)	-	-
Net Income (loss)	\$ 2.60	\$ 3.74	\$ (3.95)
<b>Diluted:</b>			
Income (loss) before extraordinary item	\$ 192,081	\$ 215,690	\$ (206,105)
Dividends on preferred stock, Series C	-	-	(8,266)
Dividends on Subsidiary's Series A \$2.20 Cumulative Convertible Preferred Stock	2,752	6,200	-
Income (loss) for diluted computation	194,833	221,890	(214,371)
Extraordinary item	(38,719)	-	-
Net income (loss) for diluted computation	\$ 156,114	\$ 221,890	\$ (214,371)
Weighted average common shares (basic)	59,015,091	55,432,949	54,322,804
Effect of dilutive securities:			
Stock options and restricted stock	1,172,496	1,446,585	-
Subsidiary's Series A \$2.20 Cumulative Convertible Preferred Stock	1,256,151	2,818,679	-
Series C \$2.875 Cumulative Convertible Preferred Stock	190,457	4,078,014	-
Adjusted weighted average common shares and assumed conversions	61,634,195	63,776,227	54,322,804
Diluted earnings (loss) per common share:			
Income (loss) before extraordinary item	\$ 3.16	\$ 3.48	\$ (3.95)
Extraordinary item	(0.63)	-	-
Net income (loss)	\$ 2.53	\$ 3.48	\$ (3.95)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH AUDITORS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Ernst & Young LLP ("E&Y") were previously the principal auditors for McDermott International, Inc. ("MII"). On July 24, 1998, the Board of Directors selected PricewaterhouseCoopers LLP as E&Y's replacement.

For the two fiscal years ended March 31, 1998 and 1997, there were no disagreements with E&Y on any matters of accounting principles or practice, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of E&Y, would have caused it to make a reference to the subject matter of the disagreement in connection with this report. E&Y has not advised MII of any reportable events. E&Y's reports on MII's financial statements for the two fiscal years ended March 31, 1998 and 1997 did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

For the fiscal year ended March 31, 1999, there were no disagreements with PricewaterhouseCoopers LLP on accounting and financial disclosure.

P A R T I I I

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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" and "Executive Officers" in the Proxy Statement for MII's 1999 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 MII's 1999 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 MII's Proxy Statement for the 1999 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

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

Reports of Independent Accountants  
 Consolidated Balance Sheet March 31, 1999 and 1998  
 Consolidated Statement of Income (Loss) For the Three Fiscal Years Ended March 31, 1999  
 Consolidated Statement of Comprehensive Income (Loss) For the Three Fiscal Years Ended March 31, 1999  
 Consolidated Statement of Stockholders' Equity For the Three Fiscal Years Ended March 31, 1999  
 Consolidated Statement of Cash Flows For the Three Fiscal Years Ended March 31, 1999  
 Notes to Consolidated Financial Statements For the Three Fiscal Years Ended March 31, 1999

2. CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

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

3. EXHIBITS

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated as of May 7, 1999 between McDermott International, Inc. and J. Ray McDermott, S.A. (incorporated by reference to Annex A of Exhibit (a)(1) to the Schedule 14D-1 filed by McDermott International, Inc. with the Commission on May 13, 1999).
3.1	McDermott International, Inc.'s Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 of McDermott International, Inc.'s Form 10-K for the fiscal year ended March 31, 1996).
3.2	McDermott International, Inc.'s amended and restated By-Laws (incorporated by reference to Exhibit 3.2 of McDermott International, Inc.'s Form 10-Q for the quarter ended December 31, 1998).
4.1	Amended and Restated Rights Agreement
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	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).

Exhibit Number	Description
10.3*	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).
10.4*	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 under a Schedule 14A).
10.5*	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).
10.6*	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).
10.7*	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).
10.8*	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).
10.9*	McDermott International, Inc.'s Restated 1996 Officer Long-Term Incentive Plan (incorporated by reference to Appendix A to McDermott International, Inc.'s Proxy Statement for its Annual Meeting of Stockholders held on August 6, 1996 as filed with the Commission under a Schedule 14A).
10.10*	McDermott International, Inc.'s 1997 Director Stock Program (incorporated by reference to Appendix A to McDermott International, Inc.'s Proxy Statement for its Annual Meeting of Stockholders held on September 2, 1997 as filed with the Commission under a Schedule 14A).
21	Significant Subsidiaries of the Registrant
23	Consents of Independent Accountants
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.

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed by MII during the three months ended March 31, 1999.

SIGNATURES

Pursuant to the requirements of Section 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/Roger E. Tetrault  
-----

June 9, 1999

By: Roger E. Tetrault  
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.

Signature -----	Title -----
/s/ Roger E. Tetrault ----- Roger E. Tetrault	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Daniel R. Gaubert ----- Daniel R. Gaubert	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
----- Theodore H. Black	Director
/s/ Phillip J. Burguieres ----- Phillip J. Burguieres	Director
/s/ Bruce Demars ----- Bruce Demars	Director
/s/ Robert L. Howard ----- Robert L. Howard	Director
/s/ John William Johnstone, Jr. ----- John William Johnstone, Jr.	Director
/s/ William McCollam, Jr. ----- William McCollam, Jr.	Director
/s/ Kathryn D. Sullivan ----- Kathryn D. Sullivan	Director
/s/ John N. Turner ----- John N. Turner	Director
/s/ Richard E. Woolbert ----- Richard E. Woolbert	Director

June 9, 1999

INDEX TO EXHIBITS

Exhibit Number -----	Description -----	Sequentially Numbered Pages -----
2.1	Agreement and Plan of Merger dated as of May 7, 1999 between McDermott International, Inc. and J. Ray McDermott, S.A. (incorporated by reference to Annex A of Exhibit (a)(1) to the Schedule 14D-1 filed by McDermott International, Inc. with the Commission on May 13, 1999).	
3.1	McDermott International, Inc.'s Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 of McDermott International, Inc.'s Form 10-K for the fiscal year ended March 31, 1996).	
3.2	McDermott International, Inc.'s amended and restated By-Laws (incorporated by reference to Exhibit 3.2 of McDermott International, Inc.'s Form 10-Q for the quarter ended December 31, 1996).	
4.1	Amended and Restated Rights Agreement	
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 ended March 31, 1994 filed with the Commission on June 27, 1994).	
10.2	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).	
10.3*	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).	
10.4*	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 under a Schedule 14A).	
10.5*	McDermott International, Inc.'s 1987 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, 1988).	
10.6*	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).	

Exhibit Number -----	Description -----	Sequentially Numbered Pages -----
10.7*	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).	
10.8*	McDermott International, Inc.'s 1992 Directors 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).	
10.9*	McDermott International, Inc.'s Restated 1996 Officer Long-Term Incentive Plan, as amended (incorporated by reference to Appendix B to McDermott International, Inc.'s Proxy Statement for its Annual Meeting of Stockholders held on July 28, 1997 as filed with the Commission under a Schedule 14A).	
10.10*	McDermott International, Inc.'s 1997 Director Stock Program (incorporated by reference to Appendix A to McDermott International, Inc.'s Proxy Statement for its Annual Meeting of Stockholders held on September 2, 1997 as filed with the Commission under a Schedule 14A).	
21	Significant Subsidiaries of the Registrant	
23.1	Consent of PricewaterhouseCoopers LLP	
23.2	Consent of Ernst & Young LLP	
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.		

AMENDED AND RESTATED  
RIGHTS AGREEMENT

dated as of  
April 15, 1999

between

McDermott International, Inc.

and

First Chicago Trust Company of New York  
as Rights Agent

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AMENDED AND RESTATED RIGHTS AGREEMENT

AMENDED AND RESTATED AGREEMENT dated as of April 15, 1999 between McDermott International, Inc., a Panama corporation (the "Company"), and First Chicago Trust Company of New York, as Rights Agent (the "Rights Agent"),

W I T N E S S E T H

WHEREAS, on December 5, 1995 the Board of Directors of the Company authorized and declared a dividend of one preferred stock purchase right (a "Right") for each share of Common Stock (as hereinafter defined) outstanding at the close of business on January 2, 1996 (the "Record Date") and authorized the issuance of one Right in respect of each share of Common Stock issued after the Record Date, each Right representing the right to purchase, upon the terms and subject to the conditions hereinafter set forth, one one-hundredth of a share of Preferred Stock (as hereinafter defined), subject to the terms and provisions of the Rights Agreement dated as of December 5, 1995, between the Company and the Rights Agent;

WHEREAS, the Company and the Rights Agent entered into an amendment dated as of July 31, 1997 to such Rights Agreement pursuant to which the term of such Rights Agreement was reduced by 5 years; and

WHEREAS, the Company and the Rights Agent have on the date hereof entered into a further amendment dated as of the date hereof to such Rights Agreement and the Company and the Rights Agent desire to restate the Rights Agreement in its entirety to reflect all such amendments;

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Definitions. The following terms, as used herein, have the following meanings:

"Acquiring Person" means any Person who, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of 15% or more of the shares of Common Stock then outstanding; provided, however, that an Acquiring Person shall not include:

(a) any Person that the Board of Directors of the Company determines in good faith became the Beneficial Owner of shares of Common Stock that would otherwise cause such Person to be an "Acquiring Person" inadvertently (including, without limitation, because such Person was unaware of the extent of its Beneficial Ownership or had no actual knowledge of the consequences of its Beneficial Ownership under this Agreement) and without any intention of changing or influencing control of the Company, unless and until such Person shall have failed to divest itself, as promptly as practicable (as determined, in good faith, by the Board of Directors of the Company), of Beneficial Ownership of a sufficient number of shares of Common Stock so that such Person would no longer otherwise qualify as an "Acquiring Person";

(b) any Person who is the Beneficial Owner of shares of Common Stock that would otherwise cause such Person to be an Acquiring Person solely as a result of a repurchase of shares of Common Stock by the Company unless and

until such Person becomes the Beneficial Owner of any additional shares of Common Stock (other than pursuant to a dividend or distribution paid or made by the Company on the outstanding Common Stock or pursuant to a split or subdivision of the outstanding Common Stock) and at such time would be the Beneficial Owner of shares of Common Stock that would otherwise cause it to be an "Acquiring Person"; and

(c) any Exempt Person.

"Affiliate" and "Associate" have the respective meanings ascribed to such terms in Rule 12b-2 under the Exchange Act as in effect on the date hereof.

A Person shall be deemed the "Beneficial Owner" of, and shall be deemed to "beneficially own", any securities:

(a) which such Person or any of its Affiliates or Associates, directly or indirectly, beneficially owns (as determined pursuant to Rule 13d-3 under the Exchange Act as in effect on the date hereof);

(b) which such Person or any of its Affiliates or Associates, directly or indirectly, has

(i) the right to acquire (whether such right is exercisable immediately or only upon the occurrence of certain events or the passage of time or both) pursuant to any agreement, arrangement or understanding (whether or not in writing) or otherwise (other than pursuant to the Rights or customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities); provided that a Person shall not be deemed the "Beneficial Owner" of or to "beneficially own" securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of its Affiliates or Associates until such tendered securities are accepted for payment or exchange; or

(ii) the right to vote (whether such right is exercisable immediately or only upon the occurrence of certain events or the passage of time or both) pursuant to any agreement, arrangement or understanding (whether or not in writing) or otherwise; provided that a Person shall not be deemed the "Beneficial Owner" of or to "beneficially own" any security under this clause (ii) as a result of an agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding (A) arises solely from a revocable proxy or consent given in response to a public proxy or consent solicitation made pursuant to the applicable rules and regulations under the Exchange

Act and (B) is not also then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(c) which are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person or any of its Affiliates or Associates has any agreement, arrangement or understanding (whether or not in writing) (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in subparagraph (b) (ii) immediately above) or disposing of any such securities;

provided, however, that no Person who is an officer, director or employee of an Exempt Person shall be deemed, solely by reason of such Person's status or authority as such, to be the "Beneficial Owner" of, to have "Beneficial Ownership" of or to "beneficially own" any securities that are "beneficially owned", including, without limitation, in a fiduciary capacity, by an Exempt Person or by any other such officer, director or employee of an Exempt Person.

"Business Day" means any day other than a Saturday, Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

"Close of business" on any given date means 5:00 P.M., New York City time, on such date; provided that if such date is not a Business Day "close of business" means 5:00 P.M., New York City time, on the next succeeding Business Day.

"Common Stock" means the Common Stock, par value \$1.00 per share, of the Company, except that, when used with reference to any Person other than the Company, "Common Stock" means the capital stock of such Person with the greatest voting power, or the equity securities or other equity interest having power to control or direct the management, of such Person.

"Distribution Date" means the earlier of (a) the close of business on the tenth day after the Stock Acquisition Date and (b) the close of business on the tenth Business Day (or such later day as may be designated prior to any Person becoming an Acquiring Person by action of the Board of Directors of the Company) after the date of the commencement of a tender or exchange offer by any Person if, upon consummation thereof, such Person would be an Acquiring Person.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exempt Person" shall mean the Company or any Subsidiary of the Company, in each case including, without limitation, in its fiduciary capacity, or any employee benefit plan of the Company or of any Subsidiary of the Company, or any entity or trustee holding Common Stock for or pursuant to the terms of any such plan or for the purpose of funding any such plan or funding other employee benefits for employees of the Company or of any Subsidiary of the Company.

"Expiration Date" means the earlier of (a) the Final Expiration Date and (b) the time at which all Rights are redeemed as provided in Section 23 or exchanged as provided in Section 24.

"Final Expiration Date" means the close of business on January 2, 2001.

"Person" means an individual, corporation, partnership, association, trust or any other entity or organization.

"Preferred Stock" means the Series D Participating Preferred Stock, par value \$1.00 per share, of the Company, having the terms set forth in the form of certificate of designation attached hereto as Exhibit A.

"Purchase Price" means the price (subject to adjustment as provided herein) at which a holder of a Right may purchase one one-hundredth of a share of Preferred Stock (subject to adjustment as provided herein) upon exercise of a Right, which price shall initially be \$50.00.

"Section 11(a) (ii) Event" means any event described in the first clause of Section 11(a) (ii).

"Section 13 Event" means any event described in clauses (x), (y) or (z) of Section 13(a).

"Securities Act" means the Securities Act of 1933, as amended.

"Stock Acquisition Date" means the date of the first public announcement (including the filing of a report on Schedule 13D under the Exchange Act (or any comparable or successor report)) by the Company or an Acquiring Person indicating that an Acquiring Person has become such.

"Subsidiary" of any Person means any other Person of which securities or other ownership interests having ordinary voting power, in the absence of contingencies, to elect a majority of the board of directors or other Persons performing similar functions are at the time directly or indirectly owned by such first Person.

"Trading Day" means a day on which the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading is open for the transaction of business or, if the shares of Common Stock are not listed or admitted to trading on any national securities exchange, a Business Day.

"Triggering Event" means any Section 11(a) (ii) Event or any Section 13 Event.

Section 2. Appointment of Rights Agent. The Company hereby appoints the Rights Agent to act as agent for the Company and the holders of the Rights in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such Co-Rights Agents as it may deem necessary or desirable. If the Company appoints one or more Co-Rights Agents, the respective duties of the Rights Agent and any Co-Rights Agents shall be as the Company shall determine.

Section 3. Issue of Right Certificates. (a) Prior to the Distribution Date, (i) the Rights will be evidenced by the certificates for the Common Stock and not by separate Right Certificates (as hereinafter defined) and the registered holders of the Common Stock shall be deemed to be the registered holders of the associated Rights, and (ii) the Rights will be transferable only in connection with the transfer of the underlying shares of Common Stock. As soon as practicable after the Record Date, the Company will send a summary of the Rights substantially in the form of Exhibit C hereto, by first-class, postage prepaid mail, to each record holder of the Common Stock as of the close of business on the Record Date at the address of such holder shown on the records of the Company.

(b) As soon as practicable after the Company has notified the Rights Agent of the occurrence of the Distribution Date, the Rights Agent will send, by first-class, insured, postage prepaid mail, to each record holder of the Common Stock as of the close of business on the Distribution Date, at the address of such holder shown on the records of the Company, one or more Right Certificates evidencing one Right (subject to adjustment as provided herein) for each share of Common Stock so held. If an adjustment in the number of Rights per share of Common Stock has been made pursuant to Section 11(p), the Company shall, at the time of distribution of the Right Certificates, make the necessary and appropriate rounding adjustments (in accordance with Section 14(a)) so that Right Certificates representing only whole numbers of Rights are distributed and cash is paid in lieu of any fractional Rights. From and after the Distribution Date, the Rights will be evidenced solely by such Right Certificates.

(c) Rights shall be issued in respect of all shares of Common Stock outstanding as of the Record Date or issued (on original issuance or out of treasury) after the Record Date but prior to the earlier of the Distribution Date and the Expiration Date. In addition, in connection with the issuance or sale of shares of Common Stock following the Distribution Date and prior to the Expiration Date, the Company (i) shall, with respect to shares of Common Stock so issued or sold (x) pursuant to the exercise of stock options or under any employee plan or arrangement or (y) upon the exercise, conversion or exchange of other securities issued by the Company prior to the Distribution Date and (ii) may, in any other case, if deemed necessary or appropriate by the Board of Directors of the Company, issue Right Certificates representing the appropriate number of Rights in connection with such issuance or sale; provided that no such Right Certificate shall be issued if, and to the extent that, (i) the Company shall be advised by counsel that such issuance would create a significant risk of material adverse tax consequences to the Company or the Person to whom such Right Certificate would be issued or (ii) appropriate adjustment shall otherwise have been made in lieu of the issuance thereof.

(d) Certificates for the Common Stock issued after the Record Date but prior to the earlier of the Distribution Date and the Expiration Date shall have impressed on, printed on, written on or otherwise affixed to them the following legend:

This certificate also evidences certain Rights as set forth in a Rights Agreement between McDermott International, Inc. and First Chicago Trust Company of New York dated as of December 5, 1995, as amended (the "Rights Agreement"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal executive offices of the Company. The Company will mail to the holder of this certificate a copy of the Rights Agreement without charge promptly after receipt of a written request therefor.

Under certain circumstances, as set forth in the Rights Agreement, such Rights may be evidenced by separate certificates and no longer be evidenced by this certificate, may be redeemed or exchanged or may expire. As set forth in the Rights Agreement, Rights issued to, or held by, any Person who is, was or becomes an Acquiring Person or an Affiliate or Associate thereof (as such terms are defined in the Rights Agreement), whether currently held by or on behalf of such Person or by any subsequent holder, may be null and void.

Section 4. Form of Right Certificates. (a) The certificates evidencing the Rights (and the forms of assignment, election to purchase and certificates to be printed on the reverse thereof) (the "Right Certificates") shall be substantially in the form of Exhibit B hereto and may have such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any applicable law, rule or regulation or with any rule or regulation of any stock exchange on which the Rights may from time to time be listed, or to conform to usage. The Right Certificates, whenever distributed, shall be dated as of the Record Date.

(b) Any Right Certificate representing Rights beneficially owned by any Person referred to in clauses (i), (ii) or (iii) of the first sentence of Section 7(d) shall (to the extent feasible) contain the following legend:

The Rights represented by this Right Certificate are or were beneficially owned by a Person who was or became an Acquiring Person or an Affiliate or Associate of an Acquiring Person (as such terms are defined in the Rights Agreement). This Right Certificate and the Rights represented hereby may be or may become null and void in the circumstances specified in Section 7(d) of such Agreement.

Section 5. Countersignature and Registration. (a) The Right Certificates shall be executed on behalf of the Company by its Chairman of the Board, its President or any Vice President, either manually or by facsimile signature, and shall have affixed thereto the Company's seal or a facsimile thereof which shall be attested by the Secretary or an Assistant Secretary of the Company, either manually or by facsimile signature. The Right Certificates shall be manually countersigned by the Rights Agent and shall not be valid for any purpose unless so countersigned. In case any officer of the Company whose manual or facsimile signature is affixed to the Right Certificates shall cease to be such officer of the Company before countersignature by the Rights Agent and issuance and delivery by the Company, such Right Certificates may, nevertheless, be countersigned by the Rights Agent and issued and delivered with the same force and effect as though the Person who signed such Right Certificates had not ceased to be such officer of the Company. Any Right Certificate may be signed on behalf of the Company by any Person who, at the actual date of the execution of such Right Certificate, shall be a proper officer of the Company to sign such Right Certificate, although at the date of the execution of this Rights Agreement any such Person was not such an officer.

(b) Following the Distribution Date, the Rights Agent will keep or cause to be kept, at its principal office or offices designated as the place for surrender of Right Certificates upon exercise, transfer or exchange, books for registration and transfer of the Right Certificates. Such books shall show with respect to each Right Certificate the name and address of the registered holder

thereof, the number of Rights indicated on the certificate and the certificate number.

Section 6. Transfer and Exchange of Right Certificates; Mutilated Destroyed, Lost or Stolen Right Certificates. (a) At any time after the Distribution Date and prior to the Expiration Date, any Right Certificate or Certificates may, upon the terms and subject to the conditions set forth below in this Section 6(a), be transferred or exchanged for another Right Certificate or Certificates evidencing a like number of Rights as the Right Certificate or Certificates surrendered. Any registered holder desiring to transfer or exchange any Right Certificate or Certificates shall surrender such Right Certificate or Certificates (with, in the case of a transfer, the form of assignment and certificate on the reverse side thereof duly executed) to the Rights Agent at the principal office or offices of the Rights Agent designated for such purpose. Neither the Rights Agent nor the Company shall be obligated to take any action whatsoever with respect to the transfer of any such surrendered Right Certificate or Certificates until the registered holder of the Rights has complied with the requirements of Section 7(e). Upon satisfaction of the foregoing requirements, the Rights Agent shall, subject to Sections 4(b), 7(d), 14 and 24, countersign and deliver to the Person entitled thereto a Right Certificate or Certificates as so requested. The Company may require payment of a sum sufficient to cover any transfer tax or other governmental charge that may be imposed in connection with any transfer or exchange of any Right Certificate or Certificates.

(b) Upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Right Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to them, and, at the Company's request, reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Right Certificate if mutilated, the Company will issue and deliver a new Right Certificate of like tenor to the Rights Agent for countersignature and delivery to the registered owner in lieu of the Right Certificate so lost, stolen, destroyed or mutilated.

Section 7. Exercise of Rights; Purchase Price; Expiration Date of Rights.

(a) The registered holder of any Right Certificate may exercise the Rights evidenced thereby (except as otherwise provided herein, including Sections 7(d) and (e), 9(c), 11(a) and 24) in whole or in part at any time after the Distribution Date and prior to the Expiration Date upon surrender of the Right Certificate, with the form of election to purchase and the certificate on the reverse side thereof duly executed, to the Rights Agent at the principal office or offices of the Rights Agent designated for such purpose, together with payment (in lawful money of the United States of America by certified check or bank draft payable to the order of the Company) of the aggregate Purchase Price with respect to the Rights then to be exercised and an amount equal to any applicable transfer tax or other governmental charge.

(b) Upon satisfaction of the requirements of Section 7(a) and subject to Section 20(k), the Rights Agent shall thereupon promptly (i) (A) requisition from any transfer agent of the Preferred Stock (or make available, if the Rights Agent is the transfer agent therefor) certificates for the total number of one one-hundredths of a share of Preferred Stock to be purchased (and the Company hereby irrevocably authorizes its transfer agent to comply with all such requests) or (B) if the Company shall have elected to deposit the shares of Preferred Stock issuable upon exercise of the Rights with a depository agent, requisition from the depository agent depository receipts representing such number of one

one-hundredths of a share of Preferred Stock as are to be purchased (in which case certificates for the shares of Preferred Stock represented by such receipts shall be deposited by the transfer agent with the depositary agent) and the Company will direct the depositary agent to comply with such request, (ii) requisition from the Company the amount of cash, if any, to be paid in lieu of issuance of fractional shares in accordance with Section 14 and (iii) after receipt of such certificates or depositary receipts and cash, if any, cause the same to be delivered to or upon the order of the registered holder of such Right Certificate (with such certificates or receipts registered in such name or names as may be designated by such holder). If the Company is obligated to deliver Common Stock, other securities or assets pursuant to this Agreement, the Company will make all arrangements necessary so that such other securities and assets are available for delivery by the Rights Agent, if and when appropriate.

(c) In case the registered holder of any Right Certificate shall exercise less than all the Rights evidenced thereby, a new Right Certificate evidencing the number of Rights remaining unexercised shall be issued by the Rights Agent and delivered to, or upon the order of, the registered holder of such Right Certificate, registered in such name or names as may be designated by such holder, subject to the provisions of Section 14.

(d) Notwithstanding anything in this Agreement to the contrary, from and after the first occurrence of a Section 11(a)(ii) Event, any Rights beneficially owned by (i) an Acquiring Person or an Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such or (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person (or any such Associate or Affiliate) to holders of equity interests in such Acquiring Person (or in any such Associate or Affiliate) or to any Person with whom the Acquiring Person (or any such Associate or Affiliate) has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which is part of a plan, arrangement or understanding which has as a primary purpose or effect the avoidance of this Section 7(d) shall become null and void without any further action, and no holder of such Rights shall have any rights whatsoever with respect to such Rights, whether under any provision of this Agreement or otherwise. The Company shall use all reasonable efforts to insure that the provisions of this Section 7(d) and Section 4(b) are complied with, but shall have no liability to any holder of Right Certificates or other Person as a result of its failure to make any determinations with respect to an

Acquiring Person or its Affiliates and Associates or any transferee of any of them hereunder.

(e) Notwithstanding anything in this Agreement to the contrary, neither the Rights Agent nor the Company shall be obligated to undertake any action with respect to a registered holder of Rights upon the occurrence of any purported transfer pursuant to Section 6 or exercise pursuant to this Section 7 unless such registered holder (i) shall have completed and signed the certificate contained in the form of assignment or election to purchase, as the case may be, set forth on the reverse side of the Right Certificate surrendered for such transfer or exercise, as the case may be, (ii) shall not have indicated an affirmative response to clause 1 or 2 thereof and (iii) shall have provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request.

Section 8. Cancellation and Destruction of Right Certificates. All Right Certificates surrendered for exercise, transfer or exchange shall, if surrendered to the Company or to any of its agents, be delivered to the Rights Agent for cancellation or in canceled form, or, if surrendered to the Rights Agent, shall be canceled by it, and no Right Certificates shall be issued in lieu thereof except as expressly permitted by this Agreement. The Company shall deliver to the Rights Agent for cancellation, and the Rights Agent shall cancel, any other Right Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all canceled Right Certificates to the Company, or shall, at the written request of the Company, destroy such canceled Right Certificates, and in such case shall deliver a certificate of destruction thereof to the Company.

Section 9. Reservation and Availability of Capital Stock. (a) The Company covenants and agrees that it will cause to be reserved and kept available a number of shares of Preferred Stock which are authorized but not outstanding or otherwise reserved for issuance sufficient to permit the exercise in full of all outstanding Rights as provided in this Agreement.

(b) So long as the Preferred Stock issuable upon the exercise of Rights may be listed on any national securities exchange, the Company shall use its best efforts to cause, from and after such time as the Rights become exercisable, all securities reserved for such issuance to be listed on any such exchange upon official notice of issuance upon such exercise.

(c) The Company shall use its best efforts (i) to file, as soon as practicable following the earliest date after the occurrence of a Section 11(a)(ii) Event as of which the consideration to be delivered by the Company upon exercise of the Rights has been determined in accordance with Section 11(a)(iii), or as soon as is required by law following the Distribution Date, as the case may be, a registration statement under the Securities Act with respect to the securities issuable upon exercise of the Rights, (ii) to cause such registration statement to

become effective as soon as practicable after such filing and (iii) to cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the earlier of (A) the date as of which the Rights are no longer exercisable for such securities and (B) the Expiration Date. The Company will also take such action as may be appropriate under, or to ensure compliance with, the securities or blue sky laws of the various states in connection with the exercisability of the Rights. The Company may temporarily suspend, for a period of time not to exceed 90 days after the date set forth in clause (i) of the first sentence of this Section 9(c), the exercisability of the Rights in order to prepare and file such registration statement and permit it to become effective. Upon any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. Notwithstanding any such provision of this Agreement to the contrary, the Rights shall not be exercisable for securities in any jurisdiction if the requisite qualification in such jurisdiction shall not have been obtained, such exercise therefor shall not be permitted under applicable law or a registration statement in respect of such securities shall not have been declared effective.

(d) The Company covenants and agrees that it will take all such action as may be necessary to insure that all one one-hundredths of a share of Preferred Stock issuable upon exercise of Rights shall, at the time of delivery of the certificates for such securities (subject to payment of the Purchase Price), be duly and validly authorized and issued and fully paid and nonassessable.

(e) The Company further covenants and agrees that it will pay when due and payable any and all federal and state transfer taxes and other governmental charges which may be payable in respect of the issuance or delivery of the Right Certificates and of any certificates for Preferred Stock upon the exercise of Rights. The Company shall not, however, be required to pay any transfer tax or other governmental charge which may be payable in respect of any transfer involved in the issuance or delivery of any Right Certificates or of any certificates for Preferred Stock to a Person other than the registered holder of the applicable Right Certificate, and prior to any such transfer, issuance or delivery any such tax or other governmental charge shall have been paid by the holder of such Right Certificate or it shall have been established to the Company's satisfaction that no such tax or other governmental charge is due.

Section 10. Preferred Stock Record Date. Each Person (other than the Company) in whose name any certificate for Preferred Stock is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of such Preferred Stock represented thereby on, and such certificate shall be dated, the date upon which the Right Certificate

evidencing such Rights was duly surrendered and payment of the Purchase Price (and any transfer taxes or other governmental charges) was made; provided that if the date of such surrender and payment is a date upon which the transfer books of the Company relating to the Preferred Stock are closed, such Person shall be deemed to have become the record holder of such shares on, and such certificate shall be dated, the next succeeding Business Day on which the applicable transfer books of the Company are open. Prior to the exercise of the Rights evidenced thereby, the holder of a Right Certificate shall not be entitled to any rights of a stockholder of the Company with respect to shares for which the Rights shall be exercisable, including the right to vote, to receive dividends or other distributions or to exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company except as provided herein.

Section 11. Adjustment of Purchase Price, Number and Kind of Shares or Number of Rights. (a)(i) If the Company shall at any time after the date of this Agreement (A) pay a dividend on the Preferred Stock payable in shares of Preferred Stock, (B) subdivide the outstanding Preferred Stock into a greater number of shares, (C) combine the outstanding Preferred Stock into a smaller number of shares or (D) issue any shares of its capital stock in a reclassification of the Preferred Stock (including any such reclassification in connection with a consolidation or merger involving the Company), the Purchase Price in effect immediately prior to the record date for such dividend or of the effective date of such subdivision, combination or reclassification, and the number and kind of shares of Preferred Stock or other capital stock issuable on such date shall be proportionately adjusted so that each holder of a Right shall (except as otherwise provided herein, including Section 7(d)) thereafter be entitled to receive, upon exercise thereof at the Purchase Price in effect immediately prior to such date, the aggregate number and kind of shares of Preferred Stock or other capital stock, as the case may be, which, if such Right had been exercised immediately prior to such date and at a time when the applicable transfer books of the Company were open, such holder would have been entitled to receive upon such exercise and by virtue of such dividend, subdivision, combination or reclassification. If an event occurs which requires an adjustment under both this Section 11(a)(i) and Section 11(a)(ii), the adjustment provided for in this Section 11(a)(i) shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 11(a)(ii).

(ii) If any Person, alone or together with its Affiliates and Associates, shall, at any time after the date of this Agreement, become an Acquiring Person, then proper provision shall promptly be made so that each holder of a Right shall (except as otherwise provided herein, including Section 7(d)) thereafter be entitled to receive, upon exercise thereof at the Purchase Price in effect immediately prior to the first occurrence of a Section 11(a)(ii) Event, in lieu of Preferred Stock, such number of duly authorized, validly issued, fully paid and nonassessable shares of Common Stock of the Company (such shares being referred to herein as the "Adjustment Shares") as shall be equal to the result obtained by dividing

(x) the product obtained by multiplying the Purchase Price in effect immediately prior to the first occurrence of a Section 11(a)(ii) Event by the number of one one-hundredths of a share of Preferred Stock for which a Right was exercisable immediately prior to such first occurrence (such product being thereafter referred to as the "Purchase Price" for each Right and for all purposes of this Agreement) by

(y) 50% of the current market price (determined pursuant to Section 11(d)(i)) per share of Common Stock on the date of such first occurrence;

provided that if the transaction that would otherwise give rise to the foregoing adjustment is also subject to the provisions of Section 13, then only the provisions of Section 13 shall apply and no adjustment shall be made pursuant to this Section 11(a)(ii).

(iii) If the number of shares of Common Stock which are authorized by the Company's articles of incorporation but not outstanding or reserved for issuance other than upon exercise of the Rights is not sufficient to permit the exercise in full of the Rights in accordance with Section 11(a)(ii), the Company shall, with respect to each Right, make adequate provision to substitute for the Adjustment Shares, upon payment of the Purchase Price then in effect, (A) (to the extent available) Common Stock and then, (B) (to the extent available) other equity securities of the Company which are essentially equivalent to shares of Common Stock in respect to dividend, liquidation and voting rights (such securities being referred to herein as "common stock equivalents") and then, if necessary, (C) other equity or debt securities of the Company, cash or other assets, a reduction in the Purchase Price or any combination of the foregoing, having an aggregate value (based upon the advice of a nationally recognized investment banking firm) equal to the value of the Adjustment Shares; provided that (x) the Company may, and (y) if the Company shall not have made adequate provision as required above to deliver value within 30 days following the later of the first occurrence of a Section 11(a)(ii) Event and the first date that the right to redeem the Rights pursuant to Section 23 shall expire (such 30-day period, the "Substitution Period"), then the Company shall be obligated to, deliver, upon the surrender for exercise of a Right and without requiring payment of the Purchase Price, (1) (to the extent available) Common Stock and then (2) (to the extent available) common stock equivalents and then, if necessary, (3) other equity or debt securities of the Company, cash or other assets or any combination of the foregoing, having an aggregate value (based upon the advice of a nationally recognized investment banking firm) equal to the excess of the value of the Adjustment Shares over the Purchase Price. To the extent that the Company determines that some action is to be taken pursuant to the preceding sentence of this Section 11(a)(iii), the Company (X) shall provide, subject to Section 7(d), that such action shall apply uniformly to all outstanding Rights and (Y) may suspend the exercisability of the Rights until the expiration of the Substitution Period in order to seek any authorization for additional shares and/or to decide the appropriate form and value of any consideration to be delivered as referred to in such preceding sentence. If any such suspension occurs, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. For purposes of this Section 11(a)(iii), the value of the Common Stock shall be the current market price per share of Common Stock (as determined pursuant to Section 11(d)) on the later of the date of the first occurrence of a Section 11(a)(ii) Event and the first date that the right to redeem the Rights pursuant to Section 23 shall expire; any common stock equivalent shall be deemed to have the same value as the Common Stock on such date; and the value of other securities or assets shall be determined pursuant to Section 11(d)(iii).

(b) In case the Company shall fix a record date for the issuance of rights, options or warrants to all holders of Preferred Stock entitling them to subscribe for or purchase (for a period expiring within 45 calendar days after such record date) Preferred Stock (or securities having the same rights, privileges and preferences as the shares of Preferred Stock ("equivalent preferred stock")) or securities convertible into or exercisable for Preferred Stock (or equivalent preferred stock) at a price per share of Preferred Stock (or equivalent preferred stock) (in each case, taking account of any conversion or exercise price) less than the current market price (as determined pursuant to Section 11(d)) per share of Preferred Stock on such record date, the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such date by a fraction, the numerator of which shall be the number of shares of Preferred Stock outstanding

on such record date, plus the number of shares of Preferred Stock which the aggregate price (taking account of any conversion or exercise price) of the total number of shares of Preferred Stock (and/or equivalent preferred stock) so to be offered would purchase at such current market price and the denominator of which shall be the number of shares of Preferred Stock outstanding on such record date plus the number of additional shares of Preferred Stock (and/or equivalent preferred stock) so to be offered. In case such subscription price may be paid by delivery of consideration part or all of which shall be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes. Shares of Preferred Stock owned by or held for the account of the Company shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed, and if such rights, options or warrants are not so issued, the Purchase Price shall be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(c) In case the Company shall fix a record date for the making of a distribution to all holders of Preferred Stock (including any such distribution made in connection with a consolidation or merger involving the Company) of evidences of indebtedness, equity securities other than Preferred Stock, assets (other than a regular periodic cash dividend out of the earnings or retained earnings of the Company) or rights, options or warrants (excluding those referred to in Section 11(b)), the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the current market price (as determined pursuant to Section 11(d)) per share of Preferred Stock on such record date, less the value (as determined pursuant to Section 11(d)(iii)) of such evidences of indebtedness, equity securities, assets, rights, options or warrants so to be distributed with respect to one share of Preferred Stock and the denominator of which shall be such current market price per share of Preferred Stock. Such adjustment shall be made successively whenever such a record date is fixed, and if such distribution is not so made, the Purchase Price shall be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(d) (i) For the purpose of any computation hereunder other than computations made pursuant to Section 11(a)(iii) or 14, the "current market price" per share of Common Stock on any date shall be deemed to be the average of the daily closing prices per share of such Common Stock for the 30 consecutive Trading Days immediately prior to such date; for purposes of computations made pursuant to Section 11(a)(iii), the "current market price" per share of Common Stock on any date shall be deemed to be the average of the daily closing prices per share of such Common Stock for the 10 consecutive Trading Days immediately following such date; and for purposes of

computations made pursuant to Section 14, the "current market price" per share of Common Stock for any Trading Day shall be deemed to be the closing price per share of Common Stock for such Trading Day; provided that if the current market price per share of the Common Stock is determined during a period following the announcement by the issuer of such Common Stock of (A) a dividend or distribution on such Common Stock payable in shares of such Common Stock or securities exercisable for or convertible into shares of such Common Stock (other than the Rights), or (B) any subdivision, combination or reclassification of such Common Stock, and prior to the expiration of the requisite 30 Trading Day or 10 Trading Day period, as set forth above, after the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or reclassification, then, and in each such case, the "current market price" shall be properly adjusted to take into account ex-dividend trading. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the shares of Common Stock are not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading or, if the shares of Common Stock are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ") or such other system then in use or, if on any such date the shares of Common Stock are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Common Stock selected by the Board of Directors of the Company. If on any such date no market maker is making a market in the Common Stock, the fair value of such shares on such date as determined in good faith by the Board of Directors of the Company (or, if at the time of such determination there is an Acquiring Person, by a nationally recognized investment banking firm) shall be used. If the Common Stock is not publicly held or not so listed or traded, the "current market price" per share means the fair value per share as determined in good faith by the Board of Directors of the Company, or, if at the time of such determination there is an Acquiring Person, by a nationally recognized investment banking firm, which determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes.

(ii) For the purpose of any computation hereunder, the "current market price" per share of Preferred Stock shall be determined in the same manner as set forth above for the Common Stock in Section 11(d)(i) (other than the last sentence thereof). If the current market price per share of Preferred Stock cannot be determined in such manner, the "current market price" per share of Preferred Stock shall be conclusively deemed to be an amount equal to 100 (as such number may be appropriately adjusted for such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock occurring after the date of this Agreement) multiplied by the current market price per share of Common Stock (as determined pursuant to Section 11(d)(i) (other than the last sentence thereof)). If neither the Common Stock nor the Preferred Stock is publicly held or so listed or traded, the "current market price" per share of the Preferred Stock shall be determined in the same manner as set forth in the last sentence of Section 11(d)(i). For all purposes of this Agreement, the "current market price" of one one-hundredth of a share of Preferred Stock shall be equal to the "current market price" of one share of Preferred Stock divided by 100.

(iii) For the purpose of any computation hereunder, the value of any securities or assets other than Common Stock or Preferred Stock shall be the fair value as determined in good faith by the Board of Directors of the Company, or, if at the time of such determination there is an Acquiring Person, by a nationally recognized investment banking firm, which determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes.

(e) Anything herein to the contrary notwithstanding, no adjustment in the Purchase Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Purchase Price; provided that any adjustments which by reason of this Section 11(e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or to the nearest ten-thousandth of a share of Common Stock or other share or one-millionth of a share of Preferred Stock, as the case may be.

(f) If at any time, as a result of an adjustment made pursuant to Section 11(a)(ii) or Section 13(a), the holder of any Right shall be entitled to receive upon exercise of such Right any shares of capital stock other than Preferred Stock, thereafter the number of such other shares so receivable upon exercise of any Right and the Purchase Price thereof shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Preferred Stock contained in Section 11(a), (b), (c), (e), (g), (h), (i), (j), (k) and (m), and the provisions of Sections 7, 9, 10, 13 and 14 with respect to the Preferred Stock shall apply on like terms to any such other shares.

(g) All Rights originally issued by the Company subsequent to any adjustment made hereunder shall evidence the right to purchase, at the Purchase Price then in effect, the then applicable number of one one-hundredths of a share of Preferred Stock and other capital stock of the Company issuable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(h) Unless the Company shall have exercised its election as provided in Section 11(i), upon each adjustment of the Purchase Price as a result of the calculations made in Section 11(b) and (c), each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Purchase Price, that number of one one-hundredths of a share of Preferred Stock (calculated to the nearest one-millionth) obtained by (i) multiplying (x) the number of one one-hundredths of a share for which a Right was exercisable immediately prior to this adjustment by (y) the Purchase Price in effect immediately prior to such adjustment of the Purchase Price and (ii) dividing the product so obtained by the Purchase Price in effect immediately after such adjustment of the Purchase Price.

(i) The Company may elect on or after the date of any adjustment of the Purchase Price to adjust the number of Rights, in lieu of any adjustment in the number of one one-hundredths of a share of Preferred Stock issuable upon

the exercise of a Right. Each of the Rights outstanding after such adjustment of the number of Rights shall be exercisable for the number of one one-hundredths of a share of Preferred Stock for which such Right was exercisable immediately prior to such adjustment. Each Right held of record prior to such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest ten-thousandth) obtained by dividing the Purchase Price in effect immediately prior to adjustment of the Purchase Price by the Purchase Price in effect immediately after adjustment of the Purchase Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made. This record date may be the date on which the Purchase Price is adjusted or any day thereafter, but, if the Right Certificates have been issued, shall be at least 10 days later than the date of the public announcement. If Right Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(i), the Company shall, as promptly as practicable, cause to be distributed to holders of record of Right Certificates on such record date Right Certificates evidencing, subject to Section 14, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Right Certificates held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Company, new Right Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Right Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein (and may bear, at the option of the Company, the adjusted Purchase Price) and shall be registered in the names of the holders of record of Right Certificates on the record date specified in the public announcement.

(j) Irrespective of any adjustment or change in the Purchase Price or the number of one one-hundredths of a share of Preferred Stock issuable upon the exercise of the Rights, the Right Certificates theretofore and thereafter issued may continue to express the Purchase Price per one one-hundredth of a share and the number of shares which were expressed in the initial Right Certificates issued hereunder.

(k) Before taking any action that would cause an adjustment reducing the Purchase Price below the par value, if any, of the number of one one-hundredths of a share of Preferred Stock issuable upon exercise of the Rights, the Company shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally

issue fully paid and nonassessable such number of one one-hundredths of a share of Preferred Stock at such adjusted Purchase Price.

(l) In any case in which this Section 11 shall require that an adjustment in the Purchase Price be made effective as of a record date for a specified event, the Company may elect to defer until the occurrence of such event the issuance to the holder of any Right exercised after such record date the number of one one-hundredths of a share of Preferred Stock or other capital stock of the Company, if any, issuable upon such exercise over and above the number of one one-hundredths of a share of Preferred Stock or other capital stock of the Company, if any, issuable upon such exercise on the basis of the Purchase Price in effect prior to such adjustment; provided that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares upon the occurrence of the event requiring such adjustment.

(m) Anything in this Section 11 to the contrary notwithstanding, the Company shall be entitled to make such reductions in the Purchase Price, in addition to those adjustments expressly required by this Section 11, as and to the extent that it, in its sole discretion, shall determine to be advisable in order that any consolidation or subdivision of the Preferred Stock, issuance wholly for cash of any Preferred Stock at less than the current market price, issuance wholly for cash of Preferred Stock or securities which by their terms are convertible into or exercisable for Preferred Stock, stock dividends or issuance of rights, options or warrants referred to in this Section 11, hereafter made by the Company to the holders of its Preferred Stock, shall not be taxable to such stockholders.

(n) The Company covenants and agrees that it will not at any time after the Distribution Date (i) consolidate, merge or otherwise combine with or (ii) sell or otherwise transfer (and/or permit any of its Subsidiaries to sell or otherwise transfer), in one transaction or a series of related transactions, assets or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries, taken as a whole, to any other Person or Persons if (x) at the time of or immediately after such consolidation, merger, combination or sale there are any rights, warrants or other instruments or securities outstanding or any agreements or arrangements in effect which would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights or (y) prior to, simultaneously with or immediately after such consolidation, merger, combination or sale, the stockholders of a Person who constitutes, or would constitute, the "Principal Party" for the purposes of Section

13 shall have received a distribution of Rights previously owned by such Person or any of its Affiliates and Associates.

(o) The Company covenants and agrees that after the Distribution Date, it will not, except as permitted by Sections 23, 24 and 27, take (or permit any Subsidiary to take) any action if at the time such action is taken it is reasonably foreseeable that such action will substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights.

(p) Notwithstanding anything in this Agreement to the contrary, if at any time after the date hereof and prior to the Distribution Date the Company shall (i) pay a dividend on the outstanding shares of Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock into a larger number of shares or (iii) combine the outstanding Common Stock into a smaller number of shares, the number of Rights associated with each share of Common Stock then outstanding, or issued or delivered thereafter as contemplated by Section 3(c), shall be proportionately adjusted so that the number of Rights thereafter associated with each share of Common Stock following any such event shall equal the result obtained by multiplying the number of Rights associated with each share of Common Stock immediately prior to such event by a fraction the numerator of which shall be the total number of shares of Common Stock outstanding immediately prior to the occurrence of the event and the denominator of which shall be the total number of shares of Common Stock outstanding immediately following the occurrence of such event.

Section 12. Certificate of Adjusted Purchase Price or Number of Shares . Whenever an adjustment is made as provided in Sections 11 and 13, the Company shall (a) promptly prepare a certificate setting forth such adjustment and a brief statement of the facts accounting for such adjustment, (b) promptly file with the Rights Agent and with each transfer agent for the Preferred Stock and the Common Stock a copy of such certificate and (c) mail a brief summary thereof to each holder of a Right Certificate (or, if prior to the Distribution Date, to each holder of a certificate representing shares of Common Stock) in the manner set forth in Section 26. The Rights Agent shall be fully protected in relying on any such certificate and on any adjustment therein contained.

Section 13. Consolidation, Merger or Sale or Transfer of Assets or Earning Power. (a) If, following the Stock Acquisition Date, directly or indirectly,

(x) the Company shall consolidate with, merge into, or otherwise combine with, any other Person, and the Company shall not be the continuing or surviving corporation of such consolidation, merger or combination,

(y) any Person shall merge into, or otherwise combine with, the Company, and the Company shall be the continuing or surviving corporation of such merger or combination and, in connection with such merger or

combination, all or part of the outstanding shares of Common Stock shall be changed into or exchanged for other stock or securities of the Company or any other Person, cash or any other property, or

(z) the Company and/or one or more of its Subsidiaries shall sell or otherwise transfer, in one transaction or a series of related transactions, assets or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries, taken as a whole, to any other Person or Persons,

then, and in each such case, proper provision shall promptly be made so that

(i) each holder of a Right shall thereafter be entitled to receive, upon exercise thereof at the Purchase Price in effect immediately prior to the first occurrence of any Triggering Event, such number of duly authorized, validly issued, fully paid and nonassessable shares of freely tradeable Common Stock of the Principal Party (as hereinafter defined), not subject to any rights of call or first refusal, liens, encumbrances or other claims, as shall be equal to the result obtained by dividing

(A) the product obtained by multiplying the Purchase Price in effect immediately prior to the first occurrence of any Triggering Event by the number of one one-hundredths of a share of Preferred Stock for which a Right was exercisable immediately prior to such first occurrence (such product being thereafter referred to as the "Purchase Price" for each Right and for all purposes of this Agreement) by

(B) 50% of the current market price (determined pursuant to Section 11(d)(i)) per share of the Common Stock of such Principal Party on the date of consummation of such consolidation, merger, combination, sale or transfer;

(ii) the Principal Party shall thereafter be liable for, and shall assume, by virtue of such consolidation, merger, combination, sale or transfer, all the obligations and duties of the Company pursuant to this Agreement;

(iii) the term "Company" shall thereafter be deemed to refer to such Principal Party, it being specifically intended that the provisions of Section 11 shall apply only to such Principal Party following the first occurrence of a Section 13 Event; and

(iv) such Principal Party shall take such steps (including the authorization and reservation of a sufficient number of shares of its Common Stock to permit exercise of all outstanding Rights in accordance

with this Section 13(a)) in connection with the consummation of any such transaction as may be necessary to assure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be, in relation to the shares of its Common Stock thereafter deliverable upon the exercise of the Rights.

(b) "Principal Party" means

(i) in the case of any transaction described in Section 13(a) (x) or (y), the Person that is the issuer of any securities into which shares of Common Stock of the Company are converted in such merger, consolidation or combination, and if no securities are so issued, the Person that survives or results from such merger, consolidation or combination; and

(ii) in the case of any transaction described in Section 13(a) (z), the Person that is the party receiving the greatest portion of the assets or earning power transferred pursuant to such transaction or transactions;

provided that in any such case, (A) if the Common Stock of such Person is not at such time and has not been continuously over the preceding 12-month period registered under Section 12 of the Exchange Act, and such Person is a direct or indirect Subsidiary of another Person the Common Stock of which is and has been so registered, "Principal Party" shall refer to such other Person; and (B) in case such Person is a Subsidiary, directly or indirectly, of more than one Person, the Common Stocks of two or more of which are and have been so registered, "Principal Party" shall refer to whichever of such Persons is the issuer of the Common Stock having the greatest aggregate market value.

(c) The Company shall not consummate any such consolidation, merger, combination, sale or transfer unless the Principal Party shall have a sufficient number of authorized shares of its Common Stock which are not outstanding or otherwise reserved for issuance to permit the exercise in full of the Rights in accordance with this Section 13 and unless prior thereto the Company and such Principal Party shall have executed and delivered to the Rights Agent a supplemental agreement providing for the terms set forth in Section 13(a) and (b) and providing that, as soon as practicable after the date of any consolidation, merger, combination, sale or transfer mentioned in Section 13(a), the Principal Party will

(i) prepare and file a registration statement under the Securities Act with respect to the securities issuable upon exercise of the Rights, and will use its best efforts to cause such registration statement (A) to become effective as soon as practicable after such filing and (B) to

remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the Expiration Date and

(ii) deliver to holders of the Rights historical financial statements for the Principal Party and each of its Affiliates which comply in all respects with the requirements for registration on Form 10 under the Exchange Act.

The provisions of this Section 13 shall similarly apply to successive mergers, consolidations, combinations, sales or other transfers. If any Section 13 Event shall occur at any time after the occurrence of a Section 11(a)(ii) Event, the Rights which have not theretofore been exercised shall thereafter become exercisable in the manner described in Section 13(a).

Section 14. Fractional Rights and Fractional Shares. (a) The Company shall not be required to issue fractions of Rights, except prior to the Distribution Date as provided in Section 11(p), or to distribute Right Certificates which evidence fractional Rights. In lieu of any such fractional Rights, the Company shall pay to the registered holders of the Right Certificates with regard to which such fractional Rights would otherwise be issuable an amount in cash equal to the same fraction of the current market price of a whole Right. For purposes of this Section 14(a), the current market price of a whole Right shall be the closing price of a Right for the Trading Day immediately prior to the date on which such fractional Rights would otherwise have been issuable. The closing price of a Right for any day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Rights are not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which the Rights are listed or admitted to trading or, if the Rights are not listed or admitted to trading on any national securities exchange, the last quoted price, or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by NASDAQ or such other system then in use or, if on any such date the Rights are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Rights selected by the Board of Directors of the Company. If on any such date no such market maker is making a market in the Rights, the current market price of the Rights on such date shall be as determined in good faith by the Board of Directors of the Company, or, if at the time of such determination there is an Acquiring Person, by a nationally recognized investment banking firm.

(b) The Company shall not be required to issue fractions of shares of Preferred Stock (other than fractions which are multiples of one one-hundredth of a share of Preferred Stock) upon exercise of the Rights or to distribute certificates which evidence fractional shares of Preferred Stock (other than fractions which are multiples of one one-hundredth of a share of Preferred Stock). In lieu of any such fractional shares of Preferred Stock, the Company shall pay to the registered holders of Right Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market price of one one-hundredth of a share of Preferred Stock. For purposes of this Section 14(b), the current market price of one one-hundredth of a share of Preferred Stock shall be one one-hundredth of the

closing price of a share of Preferred Stock (as determined pursuant to Section 11(d)) for the Trading Day immediately prior to the date of such exercise.

(c) Following the occurrence of any Triggering Event or upon any exchange pursuant to Section 24, the Company shall not be required to issue fractions of shares of Common Stock upon exercise of the Rights or to distribute certificates which evidence fractional shares of Common Stock. In lieu of fractional shares of Common Stock, the Company shall pay to the registered holders of Right Certificates at the time such Rights are exercised or exchanged as herein provided an amount in cash equal to the same fraction of the current market price of a share of Common Stock. For purposes of this Section 14(c), the current market price of a share of Common Stock shall be the closing price of a share of Common Stock (as determined pursuant to Section 11(d)(i)) for the Trading Day immediately prior to the date of such exercise or exchange.

(d) The holder of a Right by the acceptance of the Right expressly waives his right to receive any fractional Rights or any fractional shares upon exercise of a Right except as permitted by this Section 14.

Section 15. Rights of Action. All rights of action in respect of this Agreement are vested in the respective registered holders of the Right Certificates (and, prior to the Distribution Date, the registered holders of certificates representing Common Stock); and any registered holder of any Right Certificate (or, prior to the Distribution Date, of any certificate representing Common Stock), without the consent of the Rights Agent or of the holder of any other Right Certificate (or, prior to the Distribution Date, of any certificate representing Common Stock), may, in his own behalf and for his own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, his right to exercise the Rights evidenced by such Right Certificate in the manner provided in such Right Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of the obligations of, any Person subject to this Agreement.

Section 16. Agreement of Right Holders. Every holder of a Right by accepting the same consents and agrees with the Company and the Rights Agent and with every other holder of a Right that:

(a) prior to the Distribution Date, the Rights will be transferable only in connection with the transfer of Common Stock;

(b) after the Distribution Date, the Right Certificates are transferable only on the registry books of the Rights Agent if surrendered at the principal office or offices of the Rights Agent designated for such purposes, duly endorsed or accompanied by a proper instrument of transfer and with the appropriate forms and certificates fully executed;

(c subject to Sections 6 and 7, the Company and the Rights Agent may deem and treat the Person in whose name a Right Certificate (or, prior to the Distribution Date, a certificate representing shares of Common Stock) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the Right Certificate or the certificate representing shares of Common Stock made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent, subject to the last sentence of Section 7(d), shall be affected by any notice to the contrary; and

(d notwithstanding anything in this Agreement to the contrary, neither the Company nor the Rights Agent shall have any liability to any holder of a Right or other Person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or enacted by any governmental authority prohibiting or otherwise restraining performance of such obligation; provided that the Company must use its best efforts to have any such order, decree or ruling lifted or otherwise overturned as soon as possible.

Section 17. Right Certificate Holder Not Deemed a Stockholder. No holder, as such, of any Right Certificate shall be entitled to vote, receive dividends or be deemed for any purpose the holder of the shares of capital stock which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Right Certificate be construed to confer upon the holder of any Right Certificate, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in Section 25), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by such Right Certificate shall have been exercised in accordance with the provisions hereof.

Section 18. Concerning the Rights Agent. (a The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and disbursements and other disbursements incurred in the execution or administration of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, or expense, incurred without negligence, bad faith or willful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the administration of this Agreement or the exercise or performance of its duties hereunder, including the costs and expenses of defending against any claim of liability.

(b The Rights Agent shall be protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in connection with the administration of this Agreement or the exercise or performance of its duties

hereunder in reliance upon any Right Certificate or certificate for Common Stock or for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, instruction, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper Person or Persons.

Section 19. Merger or Consolidation or Change of Name of Rights Agent. (a Any corporation into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any corporation succeeding to the corporate trust or stock transfer business of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto; provided that such corporation would be eligible for appointment as a successor Rights Agent under the provisions of Section 21. In case at the time such successor Rights Agent shall succeed to the agency created by this Agreement, any of the Right Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of a predecessor Rights Agent and deliver such Right Certificates so countersigned; and in case at that time any of the Right Certificates shall not have been countersigned, any successor Rights Agent may countersign such Right Certificates either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Agreement.

(b In case at any time the name of the Rights Agent shall be changed and at such time any of the Right Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Right Certificates so countersigned; and in case at that time any of the Right Certificates shall not have been countersigned, the Rights Agent may countersign such Right Certificates either in its prior name or in its changed name; and in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Agreement.

Section 20. Duties of Rights Agent. The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Right Certificates, by their acceptance thereof, shall be bound:

(a The Rights Agent may consult with legal counsel (who may be legal counsel for the Company), and the opinion of such counsel shall be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion.

(b Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter (including, without limitation, the identity of any "Acquiring Person" and the determination of "current market price") be proved or established by the

Company prior to taking, suffering or omitting to take any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by the Chairman of the Board, the President or any Vice President and by the Treasurer or any Assistant Treasurer or the Secretary or any Assistant Secretary of the Company and delivered to the Rights Agent; and such certificate shall be full authorization to the Rights Agent for any action taken, suffered or omitted in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable hereunder only for its own negligence, bad faith or willful misconduct.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Right Certificates (except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

(e) The Rights Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Right Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Right Certificate; nor shall it be responsible for any change in the exercisability of the Rights (including the Rights becoming void pursuant to Section 7(d)) or any adjustment in the terms of the Rights (including the manner, method or amount thereof) provided for in Sections 3, 11, 13, 23 or 24, or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights evidenced by Right Certificates after actual notice of any such adjustment); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of Common Stock or Preferred Stock to be issued pursuant to this Agreement or any Right Certificate or as to whether any shares of Common Stock or Preferred Stock will, when issued, be duly authorized, validly issued, fully paid and nonassessable.

(f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

(g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from the Chairman of the Board, the President or any Vice President or the Secretary or any Assistant Secretary or the Treasurer or any Assistant Treasurer of the Company, and to apply to such officers for advice or instructions in connection with its duties, and it shall not be liable for any action taken, suffered or omitted to be taken by it in good faith in accordance with instructions of any such officer.

(h) The Rights Agent and any stockholder, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not the Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other Person.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company or to any holders of Rights resulting from any such act, default, neglect or misconduct, provided that reasonable care was exercised in the selection and continued employment thereof.

(j) No provision of this Agreement shall require the Rights Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of its rights if there shall be reasonable grounds for believing that repayment of such funds or adequate indemnification against such risk or liability is not reasonably assured to it.

(k) If, with respect to any Right Certificate surrendered to the Rights Agent for exercise or transfer, the certificate attached to the form of assignment or form of election to purchase, as the cases may be, has either not been completed or indicates an affirmative response to clause 1 or 2 thereof, the Rights Agent shall not take any further action with respect to such requested exercise or transfer without first consulting with the Company.

Section 21. Change of Rights Agent. The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement upon 30 days' notice in writing mailed to the Company and to each transfer agent of the Common Stock and Preferred Stock by

registered or certified mail, and, subsequent to the Distribution Date, to the holders of the Right Certificates by first-class mail. The Company may remove the Rights Agent or any successor Rights Agent upon 30 days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Common Stock and Preferred Stock by registered or certified mail, and, subsequent to the Distribution Date, to the holders of the Right Certificates by first-class mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Rights Agent. If the Company shall fail to make such appointment within a period of 30 days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Right Certificate (who shall, with such notice, submit his Right Certificate for inspection by the Company), then the registered holder of any Right Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be (a) a corporation organized and doing business under the laws of the United States or of any state of the United States, in good standing, having a principal office in the State of New York, which is authorized under such laws to exercise stock transfer or corporate trust powers and is subject to supervision or examination by federal or state authority and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$50,000,000 or (b) an Affiliate of a corporation described in clause (a) of this sentence. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Stock and the Preferred Stock, and, subsequent to the Distribution Date, mail a notice thereof in writing to the registered holders of the Right Certificates. Failure to give any notice provided for in this Section 21, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

Section 22. Issuance of New Right Certificates. Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Right Certificates evidencing Rights in such form as may be approved by its Board of Directors to reflect any adjustment or change in the Purchase Price and the number or kind or class of shares of stock issuable upon exercise of the Rights made in accordance with the provisions of this Agreement.

Section 23. Redemption. (a) The Board of Directors of the Company may, at its option, at any time prior to the earlier of (i) the close of business on the tenth day after the Stock Acquisition Date and (ii) the Final Expiration Date, redeem all but not less than all the then outstanding Rights at a redemption price of \$.01 per Right, as such amount may be appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such redemption price being hereinafter referred to as the "Redemption Price"). Notwithstanding anything in this Agreement to the contrary, the Rights shall not be exercisable after the first occurrence of a Section 11(a)(ii) Event until such time as the Company's right of redemption hereunder has expired.

(b) Immediately upon the action of the Board of Directors of the Company electing to redeem the Rights and without any further action and without any notice, the right to exercise the Rights will terminate and thereafter the only right of the holders of Rights shall be to receive the Redemption Price

for each Right so held. The Company shall promptly thereafter give notice of such redemption to the Rights Agent and the holders of the Rights in the manner set forth in Section 26; provided that the failure to give, or any defect in, such notice shall not affect the validity of such redemption. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made. Neither the Company nor any of its Affiliates or Associates may redeem, acquire or purchase for value any Rights at any time in any manner other than that specifically set forth in Section 23 or 24, and other than in connection with the purchase, acquisition or redemption of shares of Common Stock prior to the Distribution Date.

Section 24. Exchange. (a At any time after the occurrence of a Section 11(a)(ii) Event, the Board of Directors of the Company may, at its option, exchange all or part of the then outstanding and exercisable Rights (which shall not include Rights that have become void pursuant to Section 7(d)) for shares of Common Stock at an exchange ratio of one share of Common Stock per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such exchange ratio being hereinafter referred to as the "Exchange Ratio"). Notwithstanding the foregoing, the Board of Directors shall not be empowered to effect such exchange at any time after any Person (other than any Exempt Person), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of 50% or more of the shares of Common Stock then outstanding.

(b Immediately upon the action of the Board of Directors of the Company electing to exchange any Rights pursuant to Section 24(a) and without any further action and without any notice, the right to exercise such Rights will terminate and thereafter the only right of a holder of such Rights shall be to receive that number of shares of Common Stock equal to the number of such Rights held by such holder multiplied by the Exchange Ratio. The Company shall promptly thereafter give notice of such exchange to the Rights Agent and the holders of the Rights to be exchanged in the manner set forth in Section 26; provided that the failure to give, or any defect in, such notice shall not affect the validity of such exchange. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of exchange will state the method by which the exchange of the shares of Common Stock for Rights will be effected and, in the event of any partial exchange, the number of Rights which will be exchanged. Any partial exchange shall be effected pro rata based on the number of Rights (other than Rights which have become void pursuant to Section 7(d)) held by each holder of Rights.

(c In any exchange pursuant to this Section 24, the Company, at its option, may substitute common stock equivalents (as defined in Section

11(a)(iii)) for shares of Common Stock exchangeable for Rights, at the initial rate of one common stock equivalent for each share of Common Stock.

Section 25. Notice of Proposed Actions. (a) In case the Company shall propose, at any time after the Distribution Date, (i) to pay any dividend payable in stock of any class to the holders of Preferred Stock or to make any other distribution to the holders of Preferred Stock (other than a regular quarterly cash dividend out of earnings or retained earnings of the Company), or (ii) to offer to the holders of its Preferred Stock rights or warrants to subscribe for or to purchase any additional shares of Preferred Stock or shares of stock of any class or any other securities, rights or options, or (iii) to effect any reclassification of its Preferred Stock (other than a reclassification involving only the subdivision or combination of outstanding shares of Preferred Stock) or (iv) to effect any consolidation or merger with any other Person, or to effect and/or to permit one or more of its Subsidiaries to effect any sale or other transfer, in one transaction or a series of related transactions, of assets or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries, taken as a whole, to any other Person or Persons, or (v) to effect the liquidation, dissolution or winding up of the Company, then, in each such case, the Company shall give to each holder of a Right, to the extent feasible and in accordance with Section 26, a notice of such proposed action, which shall specify the record date for the purposes of any such dividend, distribution or offering of rights or warrants, or the date on which any such reclassification, consolidation, merger, sale, transfer, liquidation, dissolution or winding up is to take place and the date of participation therein by the holders of Preferred Stock, if any such date is to be fixed, and such notice shall be so given in the case of any action covered by clause (i) or (ii) above at least 20 days prior to the record date for determining holders of the Preferred Stock entitled to participate in such dividend, distribution or offering, and in the case of any such other action, at least 20 days prior to the date of the taking of such proposed action or the date of participation therein by the holders of Preferred Stock, whichever shall be the earlier. The failure to give notice required by this Section or any defect therein shall not affect the legality or validity of the action taken by the Company or the vote upon any such action.

(b) Notwithstanding anything in this Agreement to the contrary, prior to the Distribution Date a public filing by the Company with the Securities and Exchange Commission shall constitute sufficient notice to the holders of securities of the Company, including the Rights, for purposes of this Agreement and no other notice need be given to such holders.

(c) If a Triggering Event shall occur, then, in any such case, (i) the Company shall as soon as practicable thereafter give to each holder of a Right, in accordance with Section 26, a notice of the occurrence of such event, which shall specify the event and the consequences of the event to holders of Rights under Section 11(a)(ii) or 13, as the case may be, and (ii) all references in Section 25(a) to Preferred Stock shall be deemed thereafter to refer to Common Stock or other capital stock, as the case may be.

Section 26. Notices. Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Right to or on the Company shall be sufficiently given or made if sent by first-class mail (postage prepaid) to the address of the Company indicated on the signature page hereof or such other address as the Company shall specify in writing to the Rights Agent. Subject to the provisions of Section 21, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Right to or on the Rights

Agent shall be sufficiently given or made if sent by first-class mail (postage prepaid) to the address of the Rights Agent indicated on the signature page hereof or such other address as the Rights Agent shall specify in writing to the Company. Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Right Certificate (or, prior to the Distribution Date, to the holder of any certificate representing shares of Common Stock) shall be sufficiently given or made if sent by first-class mail (postage prepaid) to the address of such holder shown on the registry books of the Company.

Section 27. Supplements and Amendments. For so long as the Rights are redeemable, the Company may, and the Rights Agent shall, if the Company so directs, supplement or amend any provision of this Agreement in any respect without the approval of any holders of certificates representing shares of Common Stock. At any time when the Rights are no longer redeemable, the Company may, and the Rights Agent shall if the Company so directs, supplement or amend this Agreement without the approval of any holders of Rights; provided that no such supplement or amendment may (a) adversely affect the interests of the holders of Rights as such (other than an Acquiring Person or an Affiliate or Associate of an Acquiring Person), (b) cause this Agreement again to become amendable other than in accordance with this sentence, or (c) cause the Rights again to become redeemable. Upon the delivery of a certificate from an appropriate officer of the Company which states that the proposed supplement or amendment is in compliance with the terms of this Section, the Rights Agent shall execute such supplement or amendment.

Section 28. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 29. Determinations and Actions by the Board of Directors, etc . For all purposes of this Agreement, any calculation of the number of shares of Common Stock outstanding at any particular time, including for purposes of determining the particular percentage of such outstanding shares of Common Stock of which any Person is the Beneficial Owner, shall be made in accordance with the last sentence of Rule 13d-3(d)(1)(i) under the Exchange Act as in effect on the date of this Agreement. The Board of Directors of the Company shall have the exclusive power and authority to administer this Agreement and to exercise all rights and powers specifically granted to the Board or to the Company, or as may be necessary or advisable in the administration of this Agreement, including the right and power to (i) interpret the provisions of this Agreement and (ii) make all determinations deemed necessary or advisable for the administration of this Agreement (including a determination to redeem or exchange or not to redeem or exchange the Rights or to amend the Agreement). All such actions, calculations, interpretations and determinations (including, for purposes of clause (y) below, all omissions with respect to the foregoing) which are done or made by the Board in good faith shall (x) be final, conclusive and binding on the Company, the Rights Agent, the holders of the Rights and all other parties, and (y) not subject the Board of Directors of the Company to any liability to the holders of the Rights.

Section 30. Benefits of this Agreement. Nothing in this Agreement shall be construed to give to any Person other than the Company, the Rights Agent and the registered holders of the Right Certificates (and, prior to the Distribution Date, the certificates representing the shares of Common Stock) any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the registered holders of the Right Certificates (and, prior to the Distribution Date, the certificates representing the shares of Common Stock).

Section 31. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or

unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

Section 32. Governing Law. This Agreement, each Right and each Right Certificate issued hereunder shall be deemed to be a contract made under the laws of the Republic of Panama and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts to be made and performed entirely within such State, except that the rights and obligations of the Rights Agent shall be governed by the law of the State of New York.

Section 33. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute one and the same instrument.

Section 34. Descriptive Headings. The captions herein are included for convenience of reference only, do not constitute a part of this Agreement and shall be ignored in the construction and interpretation hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

MCDERMOTT INTERNATIONAL, INC.

By:

-----  
Name: S.W. Murphy  
Title: Senior Vice President, General Counsel  
and Secretary

1450 Poydras Street  
New Orleans, Louisiana 70161  
Attention: Senior Vice President, General Counsel  
and Secretary

FIRST CHICAGO TRUST COMPANY OF NEW YORK

By:

-----  
Name: Gerard O'Leary  
Title: Vice President

525 Washington Boulevard  
Jersey City, New Jersey 07310  
Attention: Gerard O'Leary

FORM OF  
CERTIFICATE OF DESIGNATION  
OF

SERIES D PARTICIPATING

PREFERRED STOCK

OF

MCDERMOTT INTERNATIONAL, INC.

Pursuant to the laws of the Republic of Panama

I, Lawrence R. Purtell, Senior Vice President and Corporate Secretary, of McDermott International, Inc., a corporation organized and existing under laws of the Republic of Panama, in accordance with the provisions thereof, DO HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors by the Articles of Incorporation of the Corporation, the Board of Directors on December 5, 1995, adopted the following resolution creating a series of Preferred Stock in the amount and having the designation, voting powers, preferences and relative, participating, optional and other special rights and qualifications, limitations and restrictions thereof as follows:

Section 1. Designation and Number of Shares. Designation and Number of Shares. The shares of such series shall be designated as "Series D Participating Preferred Stock" (the "Series D Preferred Stock"), and the number of shares constituting such series shall be 702,652. Such number of shares of the Series D Preferred Stock may be increased or decreased by resolution of the Board of Directors; provided that no decrease shall reduce the number of shares of Series D Preferred Stock to a number less than the number of shares then outstanding plus the number of shares issuable upon exercise or conversion of outstanding rights, options or other securities issued by the Corporation.

Section 2. Dividends and Distributions.

(a The holders of shares of Series D Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable on January 1, April 1, July 1 and October 1 of each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of any share or fraction of a share of Series D Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$1.00 and (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate

per share amount of all cash dividends or other distributions and 100 times the aggregate per share amount of all non-cash dividends or other distributions (other than (i) a dividend payable in shares of Common Stock, par value \$1.00 per share, of the Corporation (the "Common Stock") or (ii) a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise)), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series D Preferred Stock. If the Corporation shall at any time after December 5, 1995 (the "Rights Declaration Date") pay any dividend on Common Stock payable in shares of Common Stock or effect a subdivision or combination of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series D Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) The Corporation shall declare a dividend or distribution on the Series D Preferred Stock as provided in paragraph (a) above immediately after it declares a dividend or distribution on the Common Stock (other than as described in clauses (i) and (ii) of the first sentence of paragraph (a)); provided that if no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date (or, with respect to the first Quarterly Dividend Payment Date, the period between the first issuance of any share or fraction of a share of Series D Preferred Stock and such first Quarterly Dividend Payment Date), a dividend of \$1.00 per share on the Series D Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Series D Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series D Preferred Stock, unless the date of issue of such shares is on or before the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue and be cumulative from the date of issue of such shares, or unless the date of issue is a date after the record date for the determination of holders of shares of Series D Preferred Stock entitled to receive a quarterly dividend and on or before such Quarterly Dividend Payment Date, in which case dividends shall begin to accrue and be cumulative from such Quarterly Dividend

Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on shares of Series D Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series D Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall not be more than 60 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. In addition to any other voting rights required by law, the holders of shares of Series D Preferred Stock shall have the following voting rights:

(a Subject to the provision for adjustment hereinafter set forth, each share of Series D Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of stockholders of the Corporation. If the Corporation shall at any time after the Rights Declaration Date pay any dividend on Common Stock payable in shares of Common Stock or effect a subdivision or combination of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series D Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b Except as otherwise provided herein or by law, the holders of shares of Series D Preferred Stock and the holders of shares of Common Stock shall vote together as a single class on all matters submitted to a vote of stockholders of the Corporation.

(c (i If at any time dividends on any Series D Preferred Stock shall be in arrears in an amount equal to six quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a "default period") which shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series D Preferred Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, all holders of Preferred Stock and any other series of Preferred Stock then entitled as a class to elect directors, voting together as a single class, irrespective of series, shall have the right to elect two Directors.

(ii) During any default period, such voting right of the holders of Series D Preferred Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 3(c) or at any annual meeting of stockholders, and thereafter at annual meetings of stockholders, provided that neither such voting right nor the right of the holders of any other series of Preferred Stock, if any, to increase, in certain cases, the authorized number of Directors shall be exercised unless the holders of 10% in number of shares of Preferred Stock outstanding shall be present in person or by proxy. The absence of a quorum of holders of Common Stock shall not affect the exercise by holders of Preferred Stock of such voting right. At any meeting at which holders of Preferred Stock shall exercise such voting right initially during an existing default period, they shall have the right, voting as a class, to elect Directors to fill such vacancies, if any, in the Board of Directors as may then exist up to two Directors or, if such right is exercised at an annual meeting, to elect two Directors. If the number which may be so elected at any special meeting does not amount to the required number, the holders of the Preferred Stock shall have the right to make such increase in the number of Directors as shall be necessary to permit the election by them of the required number. After the holders of the Preferred Stock shall have exercised their right to elect Directors in any default period and during the continuance of such period, the number of Directors shall not be increased or decreased except by vote of the holders of Preferred Stock as herein provided or pursuant to the rights of any equity securities ranking senior to or pari passu with the Series D Preferred Stock.

(iii) Unless the holders of Preferred Stock shall, during an existing default period, have previously exercised their right to elect Directors, the Board of Directors may order, or any stockholder or stockholders owning in the aggregate not less than 10% of the total number of shares of Preferred Stock outstanding, irrespective of series, may request, the calling of special meeting of holders of Preferred Stock, which meeting shall thereupon be called by the President, a Vice President or the Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Preferred Stock are entitled to vote pursuant to this paragraph (c) (iii) shall be given to each holder of record of Preferred Stock by mailing a copy of such notice to him at his last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 20 days and not later than 60 days after such order or request or in default of the calling of such meeting within 60 days after such order or request,

such meeting may be called on similar notice by any stockholder or stockholders owning in the aggregate not less than 10% of the total number of shares of Preferred Stock outstanding, irrespective of series. Notwithstanding the provisions of this paragraph (c)(iii), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of stockholders.

(iv) In any default period, the holders of Common Stock, and other classes of stock of the Corporation if applicable, shall continue to be entitled to elect the whole number of Directors until the holders of Preferred Stock shall have exercised their right to elect two Directors voting as a class, after the exercise of which right (x) the Directors so elected by the holders of Preferred Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, and (y) any vacancy in the Board of Directors may (except as provided in paragraph (C)(ii) of this Section 3) be filled by vote of a majority of the remaining Directors theretofore elected by the holders of the class of stock which elected the Director whose office shall have become vacant. References in this paragraph (C) to Directors elected by the holders of a particular class of stock shall include Directors elected by such Directors to fill vacancies as provided in clause (y) of the foregoing sentence.

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Preferred Stock as a class to elect Directors shall cease, (y) the term of any Directors elected by the holders of Preferred Stock as a class shall terminate, and (z) the number of Directors shall be such number as may be provided for in the Articles of Incorporation or bylaws irrespective of any increase made pursuant to the provisions of paragraph (c)(ii) of this Section 3 (such number being subject, however, to change thereafter in any manner provided by law or in the Articles of Incorporation or bylaws). Any vacancies in the Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining Directors.

(d) The Articles of Incorporation of the Corporation shall not be amended in any manner (whether by merger or otherwise) so as to adversely affect the powers, preferences or special rights of the Series D Preferred Stock without the affirmative vote of the holders of a majority of the outstanding shares of Series D Preferred Stock, voting separately as a class.

(e) Except as otherwise provided herein, holders of Series D Preferred Stock shall have no special voting rights, and their consent shall not be required for taking any corporate action.

Section 4. Certain Restrictions. (a) Whenever quarterly dividends or other dividends or distributions payable on the Series D Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on outstanding shares of Series D Preferred Stock shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, or make any other distributions on, any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series D Preferred Stock;

(ii) declare or pay dividends on, or make any other distributions on, any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series D Preferred Stock, except dividends paid ratably on the Series D Preferred Stock and all such other parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem, purchase or otherwise acquire for value any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series D Preferred Stock; provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of stock of the Corporation ranking junior (as to dividends and upon dissolution, liquidation or winding up) to the Series D Preferred Stock; or

(iv) redeem, purchase or otherwise acquire for value any shares of Series D Preferred Stock, or any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series D Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of Series D Preferred Stock and all such other parity stock upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for value any shares of stock of the

Corporation unless the Corporation could, under paragraph (a) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. **Reacquired Shares.** Any shares of Series D Preferred Stock redeemed, purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock without designation as to series and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors as permitted by the Articles of Incorporation or as otherwise permitted under Panamanian law.

Section 6. **Liquidation, Dissolution or Winding up.** Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (i) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series D Preferred Stock unless, prior thereto, the holders of shares of Series D Preferred Stock shall have received \$1.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment; provided that the holders of shares of Series D Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock, or (ii) to the holders of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series D Preferred Stock, except distributions made ratably on the Series D Preferred Stock and all such other parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. If the Corporation shall at any time after the Rights Declaration Date pay any dividend on Common Stock payable in shares of Common Stock or effect a subdivision or combination of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series D Preferred Stock were entitled immediately prior to such event under the proviso in clause (i) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. **Consolidation, Merger, Etc.** If the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash or any other property, then in any such case the shares of Series D Preferred Stock shall at the same time be similarly exchanged for or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount of stock, securities, cash or any other property, as the case may be, into which or for which each share of Common Stock is changed or exchanged. If the Corporation shall at any time after the Rights Declaration Date pay any dividend on Common Stock payable in shares of Common Stock or effect a subdivision or combination of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series D Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. **No Redemption.** The Series D Preferred Stock shall not be redeemable.

Section 9. Rank. The Series D Preferred Stock shall rank junior (as to dividends and upon liquidation, dissolution and winding up) to all other series of the Corporation's preferred stock except any series that specifically provides that such series shall rank junior to the Series D Preferred Stock.

Section 10. Fractional Shares. Series D Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series D Preferred Stock.

IN WITNESS WHEREOF, we have executed and subscribed this Certificate this \_\_\_ day of December, 1995.

-----  
[Title]

Attest:

-----  
[Title]

A-8

[Form of Right Certificate]

No. R- \_\_\_\_\_ Rights

NOT EXERCISABLE AFTER THE EARLIER OF JANUARY 2, 2001 AND THE DATE ON WHICH THE RIGHTS EVIDENCED HEREBY ARE REDEEMED OR EXCHANGED BY THE COMPANY AS SET FORTH IN THE RIGHTS AGREEMENT. AS SET FORTH IN THE RIGHTS AGREEMENT, RIGHTS ISSUED TO, OR HELD BY, ANY PERSON WHO IS, WAS OR BECOMES AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE THEREOF (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT), WHETHER CURRENTLY HELD BY OR ON BEHALF OF SUCH PERSON OR BY ANY SUBSEQUENT HOLDER, MAY BE NULL AND VOID. [THE RIGHTS REPRESENTED BY THIS RIGHT CERTIFICATE ARE OR WERE BENEFICIALLY OWNED BY A PERSON WHO WAS OR BECAME AN ACQUIRING PERSON OR AN AFFILIATE OR AN ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT). THIS RIGHT CERTIFICATE AND THE RIGHTS REPRESENTED HEREBY MAY BE OR MAY BECOME NULL AND VOID IN THE CIRCUMSTANCES SPECIFIED IN SECTION 7(d) OF THE RIGHTS AGREEMENT.]/1/

## RIGHT CERTIFICATE

MCDERMOTT INTERNATIONAL, INC.

This Right Certificate certifies that \_\_\_\_\_, or registered assigns, is the registered holder of the number of Rights set forth above, each of which entitles the holder (upon the terms and subject to the conditions set forth in the Rights Agreement dated as of December 5, 1995 (as amended from time to time, the "Rights Agreement") between McDermott International, Inc., a Delaware corporation (the "Company"), and First Chicago Trust Company of New York (the "Rights Agent") to purchase from the Company, at any time after the Distribution Date and prior to the Expiration Date, \_\_\_ one-hundredth[s] of a fully paid, nonassessable share of Series D Participating Cumulative Preferred Stock (the "Preferred Stock") of the Company at a purchase price of \$50.00 per one one-hundredth of a share (the "Purchase Price"), payable in lawful money of the United States of America, upon surrender of this Right Certificate, with the form of election to purchase and related certificate duly executed, and payment of the Purchase Price at an office of the Rights Agent designated for such purpose.

Terms used herein and not otherwise defined herein have the meanings assigned to them in the Rights Agreement.

/1/ If applicable, insert this portion of the legend and delete the preceding sentence.

The number of Rights evidenced by this Right Certificate (and the number and kind of shares issuable upon exercise of each Right) and the Purchase Price set forth above are as of January 2, 1996, and may have been or in the future be adjusted as a result of the occurrence of certain events, as more fully provided in the Rights Agreement.

Upon the occurrence of a Section 11(a)(ii) Event, if the Rights evidenced by this Right Certificate are beneficially owned by (a) an Acquiring Person or an Associate or Affiliate of an Acquiring Person, (b) a transferee of an Acquiring Person (or any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such, or (c) under certain circumstances specified in the Rights Agreement, a transferee of an Acquiring Person (or any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such, such Rights shall become null and void, and no holder hereof shall have any right with respect to such Rights from and after the occurrence of such Section 11(a)(ii) Event.

This Right Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Right Certificates, which limitations of rights include the temporary suspension of the exercisability of such Rights under the specific circumstances set forth in the Rights Agreement.

Upon surrender at the principal office or offices of the Rights Agent designated for such purpose and subject to the terms and conditions set forth in the Rights Agreement, any Rights Certificate or Certificates may be transferred or exchanged for another Rights Certificate or Certificates evidencing a like number of Rights as the Rights Certificate or Certificates surrendered.

Subject to the provisions of the Rights Agreement, the Board of Directors of the Company may, at its option,

(a) at any time prior to the earlier of (i) the occurrence of a Section 11(a)(ii) Event and (ii) the Final Expiration Date, redeem all but not less than all the then outstanding Rights at a redemption price of \$.01 per Right; or

(b) at any time after any Person becomes an Acquiring Person (but before such Person becomes the Beneficial Owner of 50% or more of the shares of Common Stock then outstanding), exchange all or part of the then outstanding Rights (other than Rights held by the Acquiring Person and certain related Persons) for shares of Common Stock at an exchange ratio of one share of Common Stock per Right. If the Rights shall be exchanged in part, the holder of this Right Certificate shall be entitled to receive upon surrender hereof another Right Certificate or Certificates for the number of whole Rights not exchanged.

No fractional shares of Preferred Stock are required to be issued upon the exercise of any Right or Rights evidenced hereby (other than fractions which are multiples of one one-hundredth of a share of Preferred Stock, which may, at the election of the Company, be evidenced by depositary receipts), but in lieu thereof a cash payment will be made, as provided in the Rights

Agreement. If this Right Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof another Right Certificate or Certificates for the number of whole Rights not exercised.

No holder of this Right Certificate shall be entitled to vote, receive dividends or be deemed for any purpose the holder of the shares of capital stock which may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in the Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by this Right Certificate shall have been exercised as provided in the Rights Agreement.

This Right Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal by its authorized officers.

Dated as of \_\_\_\_\_, 19\_\_

MCDERMOTT INTERNATIONAL, INC.

By: \_\_\_\_\_

Title:

[SEAL]

Attest: \_\_\_\_\_

Secretary

Countersigned:

FIRST CHICAGO TRUST  
COMPANY OF NEW YORK  
as Rights Agent

By: \_\_\_\_\_

Authorized Signature

Form of Reverse Side of Right Certificate

FORM OF ASSIGNMENT

(To be executed if the registered holder  
desires to transfer the Right Certificate.)

FOR VALUE RECEIVED \_\_\_\_\_

hereby sells, assigns and transfers unto \_\_\_\_\_

\_\_\_\_\_  
(Please print name and address of transferee)

\_\_\_\_\_  
this Right Certificate, together with all right, title and interest therein, and  
does hereby irrevocably constitute and appoint \_\_\_\_\_ Attorney,  
to transfer the within Right Certificate on the books of the within-named  
Company, with full power of substitution.

Dated: \_\_\_\_\_, 19\_\_

-----  
Signature

Signature Guaranteed:

B-4

CERTIFICATE

The undersigned hereby certifies by checking the appropriate boxes that:

(1) the Rights evidenced by this Right Certificate \_\_\_are \_\_\_are not being assigned by or on behalf of a Person who is or was an Acquiring Person or an Affiliate or Associate of any such Acquiring Person (as such terms are defined in the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it \_\_\_did \_\_\_did not acquire the Rights evidenced by this Right Certificate from any Person who is, was or became an Acquiring Person or an Affiliate or Associate of an Acquiring Person.

Dated: \_\_\_\_\_, 19 \_\_

-----  
Signature

\_\_\_\_\_  
The signatures to the foregoing Assignment and Certificate must correspond to the name as written upon the face of this Right Certificate in every particular, without alteration or enlargement or any change whatsoever.

FORM OF ELECTION TO PURCHASE

(To be executed if the registered holder desires to exercise  
Rights represented by the Right Certificate.)

To: McDermott International, Inc.

The undersigned hereby irrevocably elects to exercise \_\_\_\_\_  
Rights represented by this Right Certificate to purchase shares of Preferred  
Stock issuable upon the exercise of the Rights (or such other securities of the  
Company or of any other person which may be issuable upon the exercise of the  
Rights) and requests that certificates for such securities be issued in the name  
of and delivered to:

Please insert social security  
or other identifying number

---

(Please print name and address)

---

If such number of Rights shall not be all the Rights evidenced by this  
Right Certificate, a new Right Certificate for the balance of such Rights shall  
be registered in the name of and delivered to:

Please insert social security  
or other identifying number

---

(Please print name and address)

---

Dated: \_\_\_\_\_, 19\_\_

\_\_\_\_\_  
Signature

Signature Guaranteed:

B-6

CERTIFICATE

The undersigned hereby certifies by checking the appropriate boxes that:

(1) the Rights evidenced by this Right Certificate \_\_\_are \_\_\_are not being exercised by or on behalf of a Person who is or was an Acquiring Person or an Affiliate or Associate of any such Acquiring Person (as such terms are defined in the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it \_\_\_did \_\_\_did not acquire the Rights evidenced by this Right Certificate from any Person who is, was or became an Acquiring Person or an Affiliate or Associate of an Acquiring Person.

Dated: \_\_\_\_\_, 19 \_\_

\_\_\_\_\_  
Signature

\_\_\_\_\_  
The signature to the foregoing Election to Purchase and Certificate must correspond to the name as written upon the face of this Right Certificate in every particular, without alteration or enlargement or any change whatsoever.

MCDERMOTT INTERNATIONAL, INC.

STOCKHOLDER RIGHTS PLAN

Summary of Terms

Form of Security: The Board of Directors has declared a dividend of one preferred stock purchase right for each outstanding share of the Company's Common Stock, payable to holders of record as of the close of business on January 2, 1996 (each a "Right" and collectively, the "Rights")

Transfer: Prior to the Distribution Date/1/, the Rights will be evidenced by the certificates for and will be transferred with the Common Stock, and the registered holders of the Common Stock will be deemed to be the registered holders of the Rights.

/1/ "Distribution Date" means the earlier of:

(1) the 10th day after public announcement that any person or group has become the beneficial owner of 15% or more of the Company's Common Stock and

(2) the 10th business day (or such later day as may be designated prior to any Person becoming an Acquiring Person by action of the Board of Directors of the Company) after the date of the commencement of a tender or exchange offer by any person which would, if consummated, result in such person becoming the beneficial owner of 15% or more of the Company's Common Stock.

After the Distribution Date, the Rights Agent will mail separate certificates evidencing the Rights to each record holder of the Common Stock as of the close of business on the Distribution Date, and thereafter the Rights will be transferable separately from the Common Stock.

- Exercise:** Prior to the Distribution Date, the Rights will not be exercisable. After the Distribution Date, each Right will be exercisable to purchase, for \$50.00 (the "Purchase Price"), one one-hundredth of a share of Series D Participating Cumulative Preferred Stock, par value \$1.00 per share, of the Company.
- Flip-In:** If any person or group (an "Acquiring Person") becomes the beneficial owner of 15% or more of the Company's Common Stock, then each Right (other than Rights beneficially owned by the Acquiring Person and certain affiliated persons) will entitle the holder to purchase, for the Purchase Price, a number of shares of the Company's Common Stock having a market value of twice the Purchase Price.
- Flip-Over:** If, after any person has become an Acquiring Person, (1) the Company is involved in a merger or other business combination in which the Company is not the surviving corporation or its Common Stock is exchanged for other securities or assets or (2) the Company and/or one or more of its subsidiaries sell or otherwise transfer assets or earning power aggregating more than 50% of the assets or earning power of the Company and its subsidiaries, taken as a whole, then each Right will entitle the holder to purchase, for the Purchase Price, a number of shares of common stock of the other party to such business combination or sale (or in certain circumstances, an affiliate) having a market value of twice the Purchase Price.
- Exchange:** At any time after any person has become an Acquiring Person (but before any person becomes the beneficial owner of 50% or more of the Company's Common Stock), the Board of Directors may exchange all or part of the Rights (other than the Rights beneficially owned by the Acquiring Person and certain affiliated persons) for shares of Common Stock at an exchange ratio of one share of Common Stock per Right.
- Redemption:** The Board of Directors may redeem all of the Rights at a price of \$.01 per Right at any time prior to the earlier of (i) the close of business on the tenth day after the Stock Acquisition Date and (ii) January 2, 2001.
- Expiration:** The Rights will expire on January 2, 2001, unless earlier exchanged or redeemed.
- Amendments:** For so long as the Rights are redeemable, the Rights Agreement may be amended in any respect.
- At any time after the Rights are no longer redeemable, the Rights Agreement may be amended by the Board of Directors in any respect that does not (i) adversely affect the Rights holders (other than any Acquiring Person and certain affiliated persons), (ii) cause the Rights Agreement again to become amendable other than in accordance with this paragraph or (iii) cause the Rights again to become redeemable.

Voting Rights: Rights holders have no rights as a stockholder of the Company, including the right to vote and to receive dividends.

Antidilution Provisions: The Rights Agreement includes antidilution provisions designed to prevent efforts to diminish the efficacy of the Rights.

Taxes: While the dividend of the Rights will not be taxable to stockholders or to the Company, stockholders or the Company may, depending upon the circumstances, recognize taxable income in the event that the Rights become exercisable as set forth above.

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A copy of the Rights Agreement has been filed with the Securities and Exchange Commission as an Exhibit to a Registration Statement on Form 8-A. A copy of the Rights Agreement is available free of charge from the Company. This summary description of the Rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement.

C-3

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McDERMOTT INTERNATIONAL, INC.  
SIGNIFICANT SUBSIDIARIES OF THE REGISTRANT  
FISCAL YEAR ENDED MARCH 31, 1999

NAME OF COMPANY	JURISDICTION OF ORGANIZATION	PERCENTAGE OF OWNERSHIP INTEREST
J. Ray McDermott, S.A.	Panama	63
Hydro Marine Services, Inc.	Panama	100
McDermott Holdings (U.K.) Limited	United Kingdom	100
McDermott Marine Construction Limited	United Kingdom	100
McDermott Far East, Inc.	Panama	100
P.T. McDermott Indonesia	Indonesia	100
McDermott South East Asia Pte. Ltd.	Singapore	100
J. Ray McDermott Holdings, Inc.	Delaware	100
J. Ray McDermott, Inc.	Delaware	100
J. Ray McDermott International, Inc.	Panama	100
J. Ray McDermott Contractors, Inc.	Panama	100
J. Ray McDermott Middle East, Inc.	Panama	100
J. Ray McDermott Far East, Inc.	Panama	100
McDermott Incorporated	Delaware	100
Babcock & Wilcox Investment Company	Delaware	100
BWX Technologies, Inc.	Delaware	100
B&W Services, Inc.	Delaware	100
B&W Federal Services, Inc.	Delaware	100
The Babcock & Wilcox Company	Delaware	100
Americon, Inc.	Delaware	100
Diamond Power International, Inc.	Delaware	100

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

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CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (No. 2-83692, No. 33-16680, No. 33-51892, No. 33-51894, No. 33-63832, No. 33-55341, No. 33-60499, No. 333-12531, No. 333-39087, and No. 333-39089) of McDermott International, Inc. and the Registration Statement on Form S-3 (No. 33-54940) of McDermott Incorporated and in the related Prospectuses of our report dated May 14, 1999 relating to the consolidated financial statements of McDermott International, Inc. which appears in this Form 10-K.

PricewaterhouseCoopers LLP  
New Orleans, Louisiana  
June 9, 1999  
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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, No. 33-55341, No. 33-60499, No. 333-12531, No. 333-39087, and No. 333-39089) 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 19, 1998 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, 1999.

ERNST & YOUNG LLP

New Orleans, Louisiana  
June 9, 1999  
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MCDERMOTT INTERNATIONAL'S MARCH 31, 1999 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH STATEMENTS.

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