



Table of Contents

1	Company Profile Financial Highlights
2	Letter to Shareholders
6	J. Ray McDermott
8	BWX Technologies
10	Industrial Operations
12	Babcock & Wilcox
14	Board of Directors
15	Officers

Company Profile McDermott International is an energy-services company whose customers include oil and gas producers, hydrocarbon processors, electric utilities and the United States Navy and Department of Energy. The Company operates worldwide through subsidiaries that carry some of the best-known names in their businesses. J. Ray McDermott has been a pioneer in marine construction for over 50 years. BWX Technologies provides nuclear fuel and reactor components to the U.S. Navy and has become a leader in the management and operation of Department of Energy sites. Babcock & Wilcox is the most respected name in boiler and environmental equipment used in power generation. McDermott's Industrial Operations are composed of the Delta companies and Hudson Products, which provide products and services to refineries, hydrocarbon processors, and cogenerators, and McDermott Technology, the Company's research and development subsidiary.

Financial Highlights

In millions, except per share amounts and employees

Year Ended	12/31/00	12/31/99*
Diluted Loss per Share	\$ (0.37)	\$ (1.05)
Dividends per Share of Common Stock	\$ 0.10	\$ 0.20
Revenues	\$ 1,877.8	\$ 2,640.5
Capital Expenditures	\$ 56.2	\$ 80.5
Depreciation and Amortization	\$ 63.9	\$ 96.1
Operating Income (Loss)	\$ (1.7)	\$ 61.7
Net Loss	\$ (22.1)	\$ (61.7)
As of	12/31/00	12/31/99*
Total Cash and Investments	\$ 445.8	\$ 538.5
Total Debt	\$ 419.5	\$ 409.5
Working Capital	\$ (85.2)	\$ 166.4
Stockholders' Equity	\$ 776.6	\$ 791.9
Stockholders' Equity per Share	\$ 12.82	\$ 13.28
Weighted Average Number of Common Shares, Diluted	59.8	59.0
Employees	11,800	17,500

*Includes results of operations for Babcock & Wilcox

“We are committed to a plan of action designed to restore the confidence of all our stakeholders and to build long-term shareholder value.”

In the months since I joined McDermott, I have immersed myself in the Company's operations, learning both its strengths and its weaknesses. I have also analyzed the many significant strategic issues facing the Company overall. While I am impressed by McDermott's business potential, I am also fully aware of the improvements expected by our shareholders and debt holders, banks who participate in our credit facilities, customers who demand timely completion of their projects within budget, and our employees who depend on us for their livelihoods.

Our financial performance in 2000 reflects the Company's challenges. Early in the year, on February 22, 2000, The Babcock & Wilcox Company and certain of its subsidiaries, faced with escalating cash demands for the settlement of asbestos claims, filed for reorganization under Chapter 11 of the U.S. Bankruptcy code. B&W took this step after other avenues to resolve the issue closed, and it became clear that Chapter 11 was the only viable legal process available to quantify and resolve B&W's exposure to asbestos claims. Because of the filing, the financial results of B&W are not consolidated with the financial results of McDermott International after February 21, 2000.

Certain, primarily foreign, power generation operations owned outside of the Chapter 11 reorganization were included in our consolidated results in 2000, but charges related to these entities led them to record operating losses for the year. Additionally, projections for significant improvement in J. Ray McDermott's marine construction markets did not materialize as quickly as we expected, and that unit also reported an operating loss for the year. Our Government and Industrial segments turned in solid financial performances in 2000, but they could not contribute enough profit to offset the net losses from J. Ray McDermott and the consolidated power generation group.

Many of the charges that led to the losses from operations were the result of actions taken to assure better financial results in the future. They included closure of certain foreign joint ventures, restructuring and reducing the size of our corporate office and staff, and charges for assets we expect to dispose of, principally in the marine construction and power generation businesses. As a direct result of these actions and related charges, we reported a net loss of \$22.1 million or \$0.37 a diluted share for the year ended December 31, 2000. Charges taken in the fourth quarter, when we reported a net loss of \$25.5 million or \$0.42 a diluted share, resulted in a loss for the full year. Revenues for the twelve months were \$1,877.8 million.

Since the Board of Directors named me Chairman of the Board and Chief Executive Officer on August 1, 2000, we have commenced initiatives on several fronts. To conserve cash, we eliminated the dividend on our common stock. To reduce costs and improve efficiencies, we began a restructuring program designed to eliminate costs at our corporate headquarters as well as in our operating units. We expect these initiatives to significantly improve our financial results in 2001 and beyond.

Despite some of the financial constraints evident at the corporate level and the continuing Chapter 11 proceedings at B&W, we have incredibly strong “franchise” name identification in our business units. J. Ray McDermott remains synonymous with excellence in deepwater marine construction for the oil and gas industry. Babcock & Wilcox commands the highest respect as the preeminent product and service provider for coal-based electric utilities. BWX Technologies is known for excellence as the provider of nuclear products and services to the U.S. Navy and Department of Energy. Our Industrial Operations—Hudson Products and the Delta companies—are also recognized as leaders in their respective industries.

These business units provide the nucleus around which we intend to rebuild McDermott International, Inc., into a growing and profitable company. After nearly a decade of unprecedented economic expansion, the U.S. is now experiencing the reality of energy and electricity shortages and increased commodity prices. With economic growth comes the need for additional commercial development of all of our energy sources—oil and gas, coal and nuclear as well as future technologies such as fuel cells. McDermott’s core businesses serve all of these sectors.

As we proceed through 2001, our challenge is to successfully work through our legal, financial and structural constraints so that we can focus our resources on the task of rebuilding operational excellence and improving operating margins in each of our core business units. Issues we must address include resolving B&W’s Chapter 11 with an acceptable plan of reorganization, recapitalizing the Company to provide our operations with the financial resources to meet their needs in a growth environment, and simplifying our complex corporate legal structure. We must be successful in each of these areas in order to provide a platform for profitable growth for all of McDermott’s operating units.

We entered 2001 with management clearly focused and committed to resolving these issues. In addition to reducing the size of our corporate staff, we’ve recruited talented newcomers to help turn the Company around. Bruce Longaker joined us as Executive Vice President and Chief Financial Officer, bringing with him over 20 years of experience in financial management in the oilfield service sector. Ron Cambre, former Chairman of the Board and Chief Executive Officer of Newmont Mining Corporation, Chairman of the National Mining Association and a member of other corporate boards, joined our Board in December 2000.

The year 2001 will provide management with numerous opportunities to turn our Company in a new direction. As we look at our operations, we see many positive signs.


The level of inquiry and bidding at J. Ray McDermott is higher than in many years, and it appears that by late 2001, we will see the early signs of the anxiously awaited upturn. The commencement of work under our agreement to build topsides for four BP projects will better utilize J. Ray’s fabrication facilities, consequently improving profitability. In addition, opportunities for platform and pipeline installation will increase utilization of the marine fleet later in the current year and into 2002.

BWX Technologies will continue to provide a solid operating performance and will benefit from the Pantex and Y-12 contracts for management and operation of DOE sites. The result should be improved revenue and income from BWXT in 2001, compared to the prior year. Our Industrial Operations results should also improve over 2000, as market demand appears strong for both Hudson Products and the Delta companies.

Babcock & Wilcox also anticipates significant long-term growth opportunities. For the first time in many years, there is a real possibility of new, coal-fired power plants being built in the U.S. With about 40% of the existing U.S. coal-fired generating capacity carrying a B&W boilerplate, any development in the original equipment market is likely to benefit B&W. After several years of operating in a weak and highly competitive market, B&W is developing a new business model to ensure improved profitability in its OEM business. In the meantime, the company will continue to benefit from its profitable service business, built primarily on the large installed base of B&W equipment.

Nearly three months into 2001, I'm pleased with the positive response and encouragement I have received from our management team and our board. We are committed to a plan of action designed to restore the confidence of all our stakeholders and to build long-term shareholder value. I appreciate continued support from our shareholders in this endeavor.

Sincerely,



Bruce W. Wilkinson

Chairman of the Board and

Chief Executive Officer

March 2001





J. Ray McDermott In the face of difficult industry conditions, J. Ray McDermott has moved decisively to position itself at the forefront of the next generation of offshore construction. Today, a versatile fleet of marine equipment, strategically located world-class fabrication facilities and a commitment to continual improvement in productivity, safety and quality prepare the company to capitalize on an increasingly robust marine construction market as commodity prices remain high and offshore drilling and production increase.

While J. Ray McDermott's revenues for 2000 were only slightly above those of 1999, backlog reached its highest level since September 1999 and closed the year almost 75% above its mid-year low. The improvement was the result of new awards from customers worldwide, including Kerr-McGee's Nansen and Boomvang spars, the third and fourth spar projects the company has undertaken in the Gulf of Mexico, and work in the Middle East and Far East. Recovering markets in the Eastern Hemisphere led the company to reactivate its Far East fabrication yard and to prepare its Middle East yard for increasing utilization.

Not included in the year-end backlog was any work associated with an agreement reached with BP, giving the customer exclusive use of J. Ray's Morgan City, Louisiana facility during fabrication of topsides for four deepwater projects, at least three of which are planned as spars. The total value of these projects,

the first of which is expected to commence in the second half of 2001, is estimated to be between \$500 million and \$600 million. The work is expected to stretch over several years.

To provide fabrication capacity for other Gulf of Mexico projects as markets improve, J. Ray McDermott reactivated its fabrication yard at Harbor Island, Texas. The company's TNG shipyard in Veracruz, Mexico also provides additional capacity for component fabrication for the Gulf of Mexico market.

In the Far East, the company completed the \$335 million, 300-mile West Natuna pipeline, over four months ahead of schedule, and reactivated its fabrication yard on Batam Island, Indonesia. The Batam yard has begun work on two projects, Phillips Petroleum's Bayu-Undan gas recycle project in the East Timor Sea and Unocal Thailand's North Pailin project. J. Ray will also install both projects.

In the Middle East, J. Ray's Jebel Ali (Dubai, UAE) fabrication facility won contracts for fabrication and installation of platforms, topsides and pipelines for Saudi Aramco, and began work on an export project, fabricating jacket and topsides for Elf Petroleum Nigeria's Amenam/Kpono project.

In 2001, high commodity prices, combined with the completion of mergers and acquisitions among oil companies, are expected to stimulate worldwide marine construction markets. In the Eastern Hemisphere, J. Ray McDermott will compete for large development plans under

consideration by oil companies in the Philippines, Indonesia, Malaysia and elsewhere in the Far East. In the Middle East, the company will benefit from current activity in the near term and a long-term increase in activity as oil production grows.

Deepwater projects in the Gulf of Mexico, as well as offshore West Africa, will provide a strong market in late 2001 and 2002. The award of the BP topsides confirms J. Ray McDermott's place as the preeminent topside fabricator for deepwater. The award complements the company's position as the leading hull and topside integrator for floating production systems, including spars, tension-leg platforms (TLPs) and floating production, storage and offloading (FPSO) systems, and as a leader in deepwater pipeline installation.

J. Ray's deepwater position was solidified when Murphy Oil Corp. awarded it a turnkey contract to provide a complete spar for the Medusa development in the Gulf of Mexico. The contract includes the fabrication of the spar hull and topsides and the installation of the platform, utilizing J. Ray assets in the United States, Mexico and the Middle East. The Medusa award proves J. Ray's strength in this quickly evolving segment of the marine construction industry.



Marine Construction Services

	Year Ended	Year Ended
Millions of dollars	12/31/00	12/31/99
Revenues	\$ 757.5	\$ 737.3
Segment Income (Loss)	\$ (31.7)	\$ 11.6
Backlog	\$ 541.6	\$ 514.8
Segment Assets	\$ 495.0	\$ 569.5
Capital Expenditures	\$ 31.3	\$ 55.9
Depreciation and Amortization	\$ 45.8	\$ 57.2

BWX Technologies BWX Technologies' heritage began at the birth of the U.S. Navy's nuclear program. The program's demands for quality, precision and technical expertise led to the proficiencies that allowed BWXT to become the preferred vendor of fuel and reactor components for the Navy and an emerging leader in the management and operation of U.S. Department of Energy sites. Today, whether powering the U.S. Navy's nuclear fleet, managing operations for the U.S. Department of Energy, or developing advanced energy systems, BWXT has earned a superior reputation for satisfying the unique demands of its customers.

McDermott International's Government Operations segment primarily consists of BWXT and its joint ventures. These operations reported \$431.3 million in revenues in 2000, an 8% growth over 1999. In 2001 and beyond, BWXT will benefit from the construction of new Navy ships and its prominent position in the

DOE site management business.

To prepare for the expanding requirements of the Navy, BWXT has begun a program to upgrade its manufacturing capacity. This upgrade will include new equipment and facility improvements that will enable BWXT to continue to provide superior technology and quality products.

BWXT's unique capabilities for full life-cycle management of special nuclear materials, facilities and technologies opened the way for the company to enter the market for management and operation (M&O) of Department of Energy facilities. From its first M&O contract awarded in the early 1990s, the company's involvement has grown to now include management at eight Department of Energy sites.

Two important M&O site management contract awards in 2000 to BWXT-led teams further position the company as a major contractor in this market. The combined annual

budgets of these sites—the Pantex facility at Amarillo, Texas and the Y-12 facility at Oak Ridge, Tennessee—are approximately \$850 million. BWXT will receive a substantial annual fee for its participation in the management of these sites. Each contract covers an initial increment of five years, with the possibility of five additional years being awarded after the initial term. At the two sites, the BWXT teams will perform important work for the national defense, such as final nuclear weapons assembly, manufacturing critical weapons components, and safeguarding a substantial portion of our national nuclear material stockpile.

The Pantex and Y-12 awards and the anticipated increase in spending on new aircraft carriers and submarines support BWX Technologies' goal of growth while providing excellence in operations.



Government Operations

	Year Ended	Year Ended
Millions of dollars	12/31/00	12/31/99
Revenues	\$ 431.3	\$ 398.5
Segment Income	\$ 51.2	\$ 55.7
Backlog	\$1,078.8	\$ 1,152.0
Segment Assets	\$ 199.5	\$ 184.1
Capital Expenditures	\$ 15.3	\$ 13.4
Depreciation and Amortization	\$ 9.3	\$ 11.1



Industrial Operations McDermott International's Industrial Operations segment includes the results of Hudson Products Corporation and the Delta Companies, as well as McDermott Technology, the Company's research and development unit.

For over 60 years, Hudson Products has supplied high-quality, air-cooled heat exchange equipment to the oil, gas and petrochemical processing industries, accounting for almost 15% of Industrial Operations 2000 revenues. Continuous innovation has made Hudson Products a pioneer in the field and created an extensive line of quality manufactured products. Hudson Products entered 2001 with the anticipation of increased downstream spending by its customers in the hydrocarbons industry as they benefit from improvements in their markets.

The hallmark of innovation at Hudson Products is an active research and development program, aimed at industry leadership in all its products and services. Among active development projects, the company is focused on highly efficient, environmentally friendly products such as the Thermflo® oil storage

tank and process vessel heater, which is currently completing successful field tests in a variety of applications.

With offices in Canada, the United Kingdom and the United States, the Delta companies carry a tradition of world-class engineering, construction, fabrication and industrial maintenance services that dates back to 1951. These companies provided approximately 85% of Industrial Operations revenues in 2000.

Delta Catalytic Industrial Services Ltd. introduced the concept of industrial contract maintenance to North America, and Delta Catalytic continues to serve its original contract maintenance customers. In addition to industrial contract maintenance, Delta Catalytic provides construction management, fabrication, commissioning, start-up and other services. This spectrum of services positions Delta Catalytic as the preferred choice to meet its customers' needs.

During 2000, Delta Hudson Engineering expanded its presence in power generation markets, securing three new projects with two new clients. It also completed the fast-

track Aux Sable gas liquids extraction and fractionation facilities in Illinois. Looking to 2001 and beyond, Delta Hudson expects to benefit from increased interest in the expansion of Canadian oil sands projects, the oil and gas developments off Canada's Atlantic coast, the development of Northern Gas and Alaska Gas projects, and the independent power market.

A record of success, uncompromising quality, skilled scientists and state-of-the-art facilities set McDermott Technology apart. At the corporate technology center, MTI supports all McDermott operations, but it also provides solutions to third-party customers on a contract basis. MTI is conducting research into a number of promising areas, including fuel-cell power generation systems, advanced environmental equipment, gas-oil separation, and nondestructive material examination.

Industrial Operations

	Year Ended	Year Ended
Millions of dollars	12/31/00	12/31/99
Revenues	\$ 504.0	\$ 488.5
Segment Income	\$ 10.0	\$ 9.2
Backlog	\$ 396.4	\$ 415.8
Segment Assets	\$ 130.5	\$ 115.6
Capital Expenditures	\$ 2.0	\$ 3.2
Depreciation and Amortization	\$ 3.9	\$ 3.9



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BOARD OF DIRECTORS

Bruce W. Wilkinson
Chairman of the Board and
Chief Executive Officer

Philip J. Burguieres ^{3,5}
Chief Executive Officer,
EMC Holdings LLC; Vice
Chairman, Houston Texans

Ronald C. Cambre ^{1,2}
Former Chairman of the Board
and Chief Executive Officer,
Newmont Mining Corporation

Bruce DeMars ^{2,4,5}
Partner, Trident Merchant Group;
Chief Executive Officer
Non-Proliferation Trust, Inc;
Admiral, United States Navy
(Retired)

Joe B. Foster ^{1,4,5}
Non-Executive Chairman of the Board,
Newfield Exploration Company;
Former Interim Chairman of the Board,
President and Chief Executive
Officer, Baker Hughes Incorporated

Robert L. Howard ^{2,3,5}
Former Vice President,
Shell Oil Company

John W. Johnstone, Jr. ^{1,2,3}
Former Chairman of the Board
and Chief Executive Officer,
Olin Corporation

Kathryn D. Sullivan ^{1,2}
President and Chief Executive Officer,
Ohio Center for Science and Industry

John N. Turner ^{1,4}
Partner,
Miller Thomson

Richard E. Woolbert ^{3,4,5}
Former Executive Vice President
and Chief Administrative Officer,
McDermott International, Inc.

- 1 Audit Committee
- 2 Compensation Committee
- 3 Directors Nominating and
Governance Committee
- 4 Special Committee
- 5 Executive Committee

**OFFICERS OF McDERMOTT
INTERNATIONAL, INC.
AND SUBSIDIARIES**

CORPORATE STAFF

Bruce W. Wilkinson
Chairman of the Board
and Chief Executive Officer

Bruce F. Longaker, Jr.
Executive Vice President and
Chief Financial Officer

John T. Nesser, III
Executive Vice President,
General Counsel and
Corporate Secretary

Thomas A. Henzler
Vice President,
Tax Administration

Robert A. Jolliff
Treasurer

Louis J. Sannino
Senior Vice President,
Human Resources,
Corporate Compliance Officer

Joseph Tusa, Jr.
Corporate Controller

J. RAY McDERMOTT

Robert H. Rawle
President

Clifford E. Bell
Vice President and General Manager,
Western Hemisphere

Daniel M. Houser
Vice President and General Manager,
Subsea and Deepwater Technology

John D. Krueger
Vice President, Planning and
Business Development

Kurt S. Nelson
Vice President and General Manager,
Eastern Hemisphere

F. Rickey Oehrlein
Vice President and General Manager,
Project Services, Compliance Director

TRANSFER AGENT AND REGISTRAR

First Chicago Trust Company,
a division of EquiServe
P.O. Box 2500
Jersey City, New Jersey 07303-2500
Common Stock of
McDermott International, Inc.

TRUSTEES AND AGENTS

United States Trust Company
of New York
114 West 47th Street
New York, New York 10036-1532
9.375% Notes Due March 15, 2002
Medium-term Notes,
Series A Due 1997-2003,
Series B Due 1998-2023

The Chase Manhattan Bank
1201 Main Street
Suite 1800
Dallas, Texas 75201
6.80% Pollution Control Revenue Bonds,
Series A
Due February 1, 2009

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
639 Loyola Avenue
Suite 1800
New Orleans, Louisiana 70113
(504) 529-2700

ANNUAL MEETING

The Annual Meeting of the
Shareholders of McDermott
International, Inc. for the year ended
December 31, 2000 will be held
at the Hotel Inter-Continental,
New Orleans, Louisiana, on
Friday, May 4, 2001, at 9:30 a.m.
local time.

INFORMATION

Additional information about the
Company, including financial
statement schedules and exhibits to
the Annual Report to shareholders
on Form 10-K for the year ended
December 31, 2000, may
be obtained without charge,
by writing or calling:

Investor Relations
McDermott International, Inc.
1450 Poydras Street
New Orleans, Louisiana 70112
(504) 587-5400

STOCKHOLDER INQUIRIES

Inquiries regarding stockholder
account matters should be addressed to:
First Chicago Trust Company,
a division of EquiServe
P.O. Box 2500
Jersey City, New Jersey 07303-2500
(800) 446-2617

STOCK EXCHANGE

The Company's Common Stock is listed
on the New York Stock Exchange.
Symbol: MDR

Unless the context otherwise requires,
the use in this report (other than the
Form 10-K) of the term McDermott
International refers solely to McDermott
International, Inc., a Panama
corporation; the term J. Ray McDermott
(JRM) refers to J. Ray McDermott, S.A.,
a Panama corporation, and its
consolidated subsidiaries; and the term
McDermott refers to the consolidated
enterprise. The use of such terms as
company, division, organization, joint
venture, we, us, our, and its, when
referring either to McDermott
International, Inc. and its consolidated
subsidiaries or to subsidiaries and
non-subsidiaries, either individually or
collectively, is only for convenience and
is not intended to describe legal
relationships. Significant subsidiaries
of McDermott International, Inc. are
listed as an exhibit to the Annual
Report on Form 10-K of McDermott
International, Inc. for the year ended
December 31, 2000, as filed with the
United States Securities and Exchange
Commission. The segments, units,
divisions, and groups of McDermott
International described in this report
are not corporate entities.

MCDERMOTT INTERNATIONAL, INC.

1450 Poydras Street
New Orleans, Louisiana
70112-6050

