Learning from Our Past,
Focusing on Our Future
A During 1960, the company worked with the United States Navy to design, fabricate and install one of the largest jacket-type steel platform structures ever used in the open sea at that time. The structure weighed 900 tons and was installed in 200 feet of water off the coast of Bermuda.

B In January 2002, Kerr-McGee Oil & Gas Corporation and Ocean Energy, Inc. began producing from the world’s first truss spar floating production platform, in the Nansen field in the Gulf of Mexico. J. Ray McDermott fabricated the 5,340 ton topsides and performed the marine installation for the topsides and the spar hull in over 3,600 feet of water.

C In the 1940’s, patriotism ran high at the company’s manufacturing facilities, which played an important role in the fabrication of equipment for America’s defense.

D BWXT’s recent investments in manufacturing technology include this high-precision machining center, which is used in the production of heavy equipment components for defense applications. The machining center is one of the largest of its kind in the world.
McDermott International is a leading global energy services company whose customers include major and independent oil and gas producers, hydrocarbon processors, electric utilities and the United States government. The company operates in 41 countries throughout the world through subsidiaries with some of the best-known names in their industries: J. Ray McDermott in the marine construction industry; BWX Technologies in the U.S. Department of Energy markets; and Babcock & Wilcox in the power generation industry.
McDermott serves the national security and energy needs of the United States and supports the energy infrastructure of nations worldwide. Both of our major business segments have substantial opportunities in 2003 and beyond. While our operating performance in 2002 was unacceptable, we have taken actions that will enable the company to transform these opportunities into value for you, our shareholders.

Substantially all of our operating loss was due to the poor performance of J. Ray McDermott ("J. Ray"), our marine construction services business. More specifically, it was largely due to the flawed execution strategy J. Ray used for its three spar projects. The contracts were priced on a lump-sum basis and require that J. Ray engineer, procure, install and construct ("EPIC") the truss spar floating production platforms. J. Ray signed its first EPIC spar contract in early 2001 for the Medusa project. Within thirteen months, it signed two additional lump-sum contracts for the Devils Tower and Front Runner spar projects, each with an EPIC scope.

The spar design is a proprietary technology owned by J. Ray and another company. While J. Ray has prior experience with four other spar projects, it had not previously engineered and fabricated the hull section of this type of floating production structure. Unexpected design and production inefficiencies were encountered in fabrication of the hull. J. Ray also is experiencing project problems with the fabrication of the topsides, resulting from poor execution at facilities that were either re-opened after many years of closure or that are performing tasks never before undertaken at those locations. The financial and human toll has been significant, and the lessons learned are profound.
During 2002, based on the lessons learned from the EPIC spar projects, we took decisive steps intended to achieve a turnaround at J. Ray. While we believe that spar technology has a substantial future in the deepwater market, we have implemented a more risk-averse strategy for its future development. We have also improved controls and are continuing to increase the rigor and discipline throughout the bidding, contracting and project management processes.

In March 2003, we named Bob Deason as the new President and Chief Operating Officer of J. Ray McDermott. Bob’s long and successful career in the upstream oil and gas sector of the engineering and construction industry makes him uniquely qualified to lead J. Ray into the future. His most immediate challenge is to manage the remaining scope of the spar projects to conclusion throughout 2003 and into early 2004 without any further losses and to ensure effective execution of J. Ray’s record $2.1 billion backlog. Clearly, 2003 is a turnaround year to further stabilize operations and position J. Ray for future growth and profitability. We believe that the worst is behind us and that J. Ray can move forward to a brighter future.

Our government operations business, BWX Technologies (“BWXT”), achieved a new level of performance excellence in 2002. BWXT’s operating income increased by 14 percent over last year, while its backlog grew to nearly $1.7 billion, the highest level in its history. BWXT’s performance at all of the sites it manages for the U.S. Department of Energy resulted in service fees that were uniformly higher than historical averages. Through its work in both prime and subcontract roles, BWXT continues to extend its core capabilities of managing complex nuclear and national security operations. Our nation’s expanded commitment to homeland security and national defense will continue to create new opportunities for BWXT.

During late 2002, John Fees, a 23-year McDermott veteran, transitioned into the role of President and Chief Operating Officer of BWXT, replacing Allen Womack who retired at the end of last year. John’s leadership will enable BWXT to continue its strong financial and operational performance in its existing core competencies while also expanding the business into additional new and complementary products and services.

“Our customers value our reputation for delivering engineering and construction solutions for the offshore oil and gas production market. Clearly, 2003 is a turnaround year to further stabilize operations and position J. Ray for future growth and profitability. We believe that the worst is behind us and that J. Ray can move forward to a brighter future.”
The Babcock & Wilcox Company ("B&W") achieved record financial performance in 2002 despite a very difficult and demanding market for its products and services. McDermott has not consolidated B&W results since it filed Chapter 11 in early 2000. In December 2002, we filed a Settlement Agreement and Consensual Plan of Reorganization ("Plan") with the bankruptcy court ("Court"). This was the culmination of three years of litigation and negotiations with the representatives of the asbestos claimants that included a difficult legal battle to protect our investment in BWXT. The Plan includes conveyance of the B&W equity, applicable insurance proceeds, a long-term unsecured note of $92 million and 4.75 million shares of McDermott stock (with certain price guarantees) to a trust, for which McDermott is given a full and complete release under the bankruptcy code that provides protection to the company from all current and future B&W asbestos claims, as well as other protection. Bankruptcy disclosure hearings on the Plan are in process, and we hope to have the B&W issue resolved later in 2003. The Plan is subject to approval by 75 percent of the claimants, approval by our Board of Directors and our shareholders, and Court confirmation.

Our financial results were negatively affected by a number of other issues. We wrote off our investment in B&W and recorded a provision for the future costs of resolving the B&W Chapter 11. We also recorded a goodwill impairment charge for J. Ray during the third quarter of 2002, which was largely a result of the deterioration of its financial performance on the three spar projects. Additionally, due to weak financial market conditions, we were required to increase the minimum pension liability for McDermott’s defined benefit plans. While the majority of the foregoing are non-cash charges, cumulatively they dramatically reduced shareholders’ equity as of the end of 2002.

During 2002, we recruited a new CFO and a new treasurer, both of whom were instrumental in completing the recent refinancing of our credit facility in a difficult credit market. By the end of 2003, we expect to put a more permanent capital structure in place to support our two operations that represent the future McDermott International — J. Ray McDermott and BWX Technologies. We will closely monitor liquidity during 2003, as we work through the cost overruns on the spar projects.

“Our government operations business, BWXT, achieved a new level of performance excellence in 2002. Our nation’s expanded commitment to homeland security and national defense will continue to create new opportunities for BWXT and will enable it to continue its strong financial and operational performance.”
2002 was a year that could be described as “The Perfect Storm” where a number of events came together simultaneously to cause a serious financial impact on our company.

2003 will be a pivotal year for McDermott. We have the right leadership in place at our two operating businesses. The outlook for resolution of the B&W bankruptcy during 2003 is positive, although not certain. While J. Ray’s 2002 financial performance was dismal, our customers still value our reputation for delivering engineering and construction solutions for the offshore oil and gas production market. BWXT continues to get stronger, and removing the cloud of the B&W bankruptcy is extremely beneficial to our company. We have industry-leading safety performance and a long established commitment to high standards of corporate ethics, compliance and governance. We will continue to make these areas a priority. McDermott was incorporated in 1959, and the enterprises that were the forbearers of our marine construction services and government operations businesses operated for many years prior to that time. We have weathered rough times before. I truly believe that we have the right people in leadership positions, and that we have taken the actions necessary to solidify and turn around our business in 2003 and to create a platform for growth in 2004 and beyond.

I want to thank our employees for their dedication as we worked through critical issues. I appreciate your continued support during these tough times and look forward to sharing better times ahead.

Sincerely,

Bruce W. Wilkinson
Chairman of the Board and
Chief Executive Officer
March 2003
Utilizing its worldwide project management offices, marine construction fleet and fabrication facilities, J. Ray McDermott (“J. Ray”) designs, engineers, fabricates, transports and installs fixed and floating platforms, pipelines and subsea systems for the production of oil and natural gas. From the oil and gas industry’s first ventures into the shallow coastal marshes to today’s massive development projects in offshore waters over 5,000 feet deep, J. Ray has applied innovative thinking to take on — and solve — the most difficult physical challenges in offshore field developments.

In 1955, J. Ray McDermott’s Derrick Barge 6, with a lifting capacity of approximately 250 tons, lifts a wooden deck section for a structure that was later installed in the shallow waters of the Gulf of Mexico.
In 2002, 10 cranes lift the mezzanine deck of the 12,345-ton integrated deck, the largest single-piece topsides ever fabricated at J. Ray’s Middle East facility. The topsides and the jacket, also fabricated at the company’s Middle East facility, are destined for the shallow waters offshore West Africa as part of Elf Petroleum Nigeria Ltd’s Amenam/Kpono Phase 1 development project.
A spar hull is a very stable floating, vertical structure with an oil and gas production deck on top. The spar’s deep draft withstands wave action, even in severe storms, and allows the use of “dry” production trees, which simplifies well maintenance and reduces operating risks and costs.
As a result of increased activity including fabrication of the Medusa spar hull and the Amenam deck and jackets, J. Ray’s Middle East facility reached peak employment levels of over 3,700 skilled personnel and 10.5 million manhours, a record for this facility.

J. Ray’s Southeast Asia operations were active with over 5,000 skilled craftsmen at its Batam Island, Indonesia, fabrication facility and high utilization of its marine fleet. J. Ray has successfully entered the Vietnam market with field development activities and installation of offshore pipelines, adding to the increased utilization of its fleet.

To further enhance its capabilities, J. Ray re-engineered conventional fabrication methods at its Batam Island facility. The company is currently extending berthing capabilities to accommodate floating production, storage and offloading (“FPSO”) vessels of up to 300,000 dead weight tons to support topsides to hull integration projects. One such project is fabrication of over 20,000 tons of topside modules and integration with ConocoPhillips’ FPSO destined for work in the Belanak field development in offshore Indonesia.

As J. Ray enters 2003, with the highest backlog in its history, the challenge and the opportunity will lie in executing these projects while meeting the company’s goal of achieving operational excellence.

J. Ray recently signed its third contract with Azerbaijan International Operating Company (“AIOC”), to fabricate integrated topsides and lay subsea pipelines in the Azerbaijan sector of the Caspian Sea, which covers one of the world’s largest hydrocarbon development areas. J. Ray is leveraging its work with AIOC, which represented over 25 percent of its backlog at the end of 2002, to build local business infrastructure and develop a skilled local workforce.
BWX Technologies ("BWXT") is at the forefront of the defense industry in the lifecycle management of complex, high consequence nuclear and national security operations, projects and programs. A leader in technology development, engineering and component manufacture for these operations, BWXT is one of the few companies with a sufficiently successful history of proven technological innovations and environmental stewardship to help the U.S. government meet today’s challenges and those that lie ahead in these areas. BWXT is highly recognized for its skills and strong risk management, which were much in evidence throughout its operations during 2002.

The company designed and fabricated the nuclear components for the U.S.S. Nautilus, the world’s first nuclear submarine. She was put to sea for the first time on January 17, 1955 and radioed her historic message, “underway on nuclear power.”
BWXT’s work with the United States government dates back to 1945 with the Manhattan Project and to 1946, with a contract signed by the U.S. Navy to research the possibility of advanced propulsion systems for naval vessels. During this long-term working relationship, BWXT has developed unique and highly specialized capabilities in nuclear technologies, specialized materials processing, advanced precision manufacturing and sound environmental management.
As the premier supplier of nuclear components to the U.S. Navy, BWXT owns and operates several specialized facilities that support the U.S. Navy’s nuclear programs. During the past several years, the company has enhanced its capabilities in this area with advanced manufacturing technologies and state-of-the-art equipment.

BWXT’s role in helping to safeguard the United States includes managing two of the nation’s nuclear weapons production facilities. At the Pantex facility in Amarillo, Texas, a BWXT affiliate operates the nation’s only nuclear weapons assembly plant, improving operations, safety and quality as it carries out this five-year, $1.5 billion contract. During 2002, the company met 100 percent of its weapons deliveries, in all production categories, and did it while improving employee safety and earning seventeen Defense Programs Awards of Excellence.

At the Y-12 National Security Complex in Oak Ridge, Tennessee, BWXT is carrying out a five-year, $2.5 billion operating contract for producing, refurbishing and dismantling nuclear weapons components; safeguarding special nuclear material; and supporting other national security needs. Nuclear non-proliferation experts from Y-12 were part of a 2002 team that helped the Republic of South Africa complete its commitment to the International Atomic Energy Agency for a full declaration of nuclear materials stored at a complex near Pretoria, South Africa.

BWXT’s performance for the Environmental Management program of the U.S. Department of Energy (“DOE”) yielded savings for the customer, accelerated work at cleanup projects and increased fees for the company. BWXT received a record 98.5 percent of the available fee for accelerating the cleanup and closure of the Mound site in Miamisburg, Ohio, and is now playing a key role in the project’s completion, with two partners, through a new $314 million contract that extends through 2006.
At the DOE’s Idaho National Engineering and Environmental Laboratory (“INEEL”), the company’s Bechtel BWXT (“BBWI”) affiliate set performance records for safety, cleanup and technology development. BBWI developed and deployed 107 new technologies that are expected to yield savings of $40 million. INEEL is the first national lab to earn the Voluntary Protection Program Star of Excellence, the highest safety award in government and the private sector.

BWXT’s affiliate DynMcDermott received a new five-year contract, with an option for another five years, to continue managing and operating the SPR sites. DynMcDermott has managed the $120-million-per-year contract since 1994. It is the only company in the DOE system to receive outstanding safety performance awards from both the DOE and the Occupational Safety and Health Administration at all four SPR sites.

BWXT’s disciplined operations management yielded a record $1.7 billion backlog, improved financial performance and created enduring value and customer confidence. The company’s opportunity in 2003 is to build on this foundation and deliver an even higher level of performance as BWXT helps the nation address some of its toughest national security challenges.

At the Y-12 National Security Complex, safety is a major priority in every area of operations. BWXT is updating aging buildings by removing potentially hazardous substances, and is making work processes safer through advances in technology. Employees in the Y-12 complex’s enriched uranium operations have worked more than 21 months without a lost-time injury.
BWX Technologies Locations

1. Idaho Falls, Idaho
2. Golden, Colorado
3. Los Alamos, New Mexico
4. Amarillo, Texas
5. Mt. Vernon, Ohio
6. Barberton, Ohio
7. Miamisburg, Ohio
8. Dravosburg, Pennsylvania
9. Lynchburg, Virginia
10. Oak Ridge, Tennessee
11. Aiken, South Carolina

J. Ray McDermott Locations

1. Houston, Texas
2. New Orleans, Louisiana
3. Morgan City, Louisiana
4. Harbor Island, Texas
5. Veracruz, Mexico
7. Lagos, Nigeria
8. Kaltenkirchen, Germany
9. Baku, Azerbaijan
10. Jebel Ali, Dubai, United Arab Emirates
11. Kuala Lumpur, Malaysia
12. Singapore
13. Batam Island, Indonesia
14. Jakarta, Indonesia
15. Perth, Australia
LEARNING FROM OUR PAST, FOCUSING ON OUR FUTURE

EXECUTIVE MANAGEMENT

Board of Directors

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

Philip J. Burguières
Chief Executive Officer, EMC Holdings, LLC; Vice Chairman, Houston Texans

Ronald C. Cambré
Former Chairman of the Board and Chief Executive Officer, Newmont Mining Corporation

Bruce DeMars
Partner, RSD, LLC; Admiral, United States Navy (Retired)

Joe B. Foster
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
Former Vice President, Shell Oil Company

John W. Johnstone, Jr.
Former Chairman of the Board and Chief Executive Officer, Olin Corporation

Richard E. Woolbert
Former Executive Vice President and Chief Administrative Officer, McDermott International, Inc.

1 Audit Committee
2 Compensation Committee
3 Nominating and Governance Committee

Officers of McDermott International, Inc. and Subsidiaries

Corporate Staff

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

Francis S. Kalman
Executive Vice President and Chief Financial Officer

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

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

Louis W. Burkart
Vice President, Internal Audit

James R. Easter
Vice President, Finance and Treasurer

Thomas A. Henzler
Vice President and Corporate Controller

Babcock & Wilcox

David L. Keller
President and Chief Operating Officer

Brandon C. Bethards
Vice President and General Manager, Fossil Power Division

Eileen M. Competti
President, Diamond Power International, Inc.

James L. Kulig
Vice President and General Manager, B&W Service Company

Michael G. Morash
Vice President and General Manager, B&W Construction Company

Richard E. Reimels
Vice President; President, Babcock & Wilcox Canada

R. Jere Shopf
Senior Vice President and Chief Restructuring Officer

Robert A. Jolliff
Treasurer

J. Ray McDermott
President and Chief Operating Officer

Hafez K. Aghili
Vice President and General Manager, Middle East and Caspian Operations

Daniel M. Houser
Vice President and General Manager, Business Development, Western Hemisphere

John D. Krueger
Vice President and General Manager, Ventures and SparTEC

Peter A. Marler
Vice President and General Manager, Atlantic Division

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

F. Rickey Oehrlein
Executive Vice President and General Manager, Western Hemisphere

Steven W. Roll
Vice President and General Manager, Southeast Asia

Francis A. Smith, Jr.
Vice President and General Manager, Fabrication Operations, Western Hemisphere

BWX Technologies

John A. Fees
President and Chief Operating Officer

Douglas L. Garlock
Vice President and General Manager, Nuclear Equipment Division

Winfred D. Nash
Vice President and General Manager, Nuclear Products Division

Dennis R. Ruddy
Vice President; President and General Manager, BWXT Y-12

Rhonnie L. Smith
Vice President; President and General Manager, BWXT Services, Inc.

J. Rod Woolsey
Senior Vice President, Operational Assurance

McDermott International 2002 Annual Report

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CORPORATE INFORMATION

TRANSFER AGENT AND REGISTRAR
EquiServe Trust Company, N.A.
P. O. Box 2500
Jersey City, New Jersey 07303-2500
Common Stock of McDermott International, Inc.

TRUSTEES AND AGENTS
The Bank of New York
101 Barclay Street
New York, New York 10286
Medium-Term Notes, Series A Due 1997-2003
Series B Due 1998-2023

JPMorgan Chase Bank
600 Travis Street
Suite 1150
Houston, Texas 77002
6.80% Pollution Revenue Bonds, Series A Due February 1, 2009

INDEPENDENT ACCOUNTANTS
PricewaterhouseCoopers LLP
639 Loyola Avenue
Suite 1800
New Orleans, Louisiana 70113
(504) 558-8200

ANNUAL MEETING
The Annual Meeting of the Shareholders of McDermott International, Inc., for the year ended December 31, 2002, will be held at the Hotel InterContinental, New Orleans, Louisiana, on Wednesday, May 7, 2003, at 9:30 a.m. CST.

INFORMATION
Additional information about our company, including the annual report to shareholders on Form 10-K for the year ended December 31, 2002, may be obtained without charge by contacting:

Investor Relations
McDermott International, Inc.
757 N. Eldridge Parkway
Houston, Texas 77079-4526
(281) 870-5011
www.mcdermott.com

STOCKHOLDER INQUIRIES
Inquiries regarding stockholder account matters should be addressed to:
EquiServe Trust Company, N.A.
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 or McDermott refers to the consolidated enterprise. The use of such terms as company, division, organization, joint venture, we, us, our or it, when referring either to McDermott or to its subsidiaries and affiliates, either individually or collectively, is only for convenience and is not intended to describe legal relationships. The segments, units, divisions and groups of McDermott described in this report are not corporate entities. For a listing of McDermott International, Inc.’s significant subsidiaries, please refer to its annual report on Form 10-K for the year ended December 31, 2002.

Caution Concerning Forward-Looking Statements
This document includes certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. McDermott cautions that statements in this document which are forward-looking and which provide other than historical information, involve risks and uncertainties that may impact the company’s actual results of operations. Although McDermott’s management believes that the expectations reflected in those forward-looking statements are reasonable, McDermott can give no assurance that those expectations will prove to have been correct. Those statements are made by using various underlying assumptions and are subject to numerous uncertainties and risks. If one or more of these risks materialize, or if underlying assumptions prove incorrect, actual results may vary materially from those expected. For a more complete discussion of information about these risks factors, see McDermott’s annual and quarterly reports filed with the Securities and Exchange Commission.