McDermott International, Inc. is an engineering and construction company, with specialty manufacturing and service capabilities, focused on energy infrastructure. Our projects include steam generating and environmental equipment, offshore production facilities and pipelines, nuclear components and governmental services. McDermott’s customers include the leading participants in the power and energy industries, including the U.S. Department of Energy.

($000, except per share amounts) 2006 2007 2008

<table>
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<tr>
<th>Revenues (Dollars in millions)</th>
<th>$4,120.1</th>
<th>$5,631.6</th>
<th>$6,572.4</th>
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<tr>
<td>Operating Income</td>
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<td>$716.2</td>
<td>$569.9</td>
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<tr>
<td>Backlog Totals (Dollars in millions)</td>
<td>$7,633</td>
<td>$9,820</td>
<td>$9,816</td>
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</table>

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company, N.A.
P.O. Box 403787
Providence, Rhode Island
02940-3078
(800) 645-2499

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2008

Deloitte & Touche LLP
111 Rugby
Suite 2300
Houston, Texas 77002-4196
(713) 992-1000

ANNUAL MEETING

The 2009 Annual Meeting of Shareholders of McDermott International, Inc., will be held at 757 N. Eldridge Parkway, Houston, Texas 77079, on Friday, May 8, 2009, at 9:30 a.m. local time.

SHAREHOLDER INFORMATION

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, segments, businesses, units, division, group, organization, joint venture, we, us, our or it, when referring either to McDermott or to its subsidiaries and affiliates, either individually or collectively, is for convenience and is not intended to describe legal relationships. For a listing of McDermott International’s wholly-owned subsidiaries, please refer to its annual report on Form 10-K for the year ended December 31, 2008.

CORPORATE GOVERNANCE

Copies of McDermott’s Corporate Governance Guidelines, Code of Business Conduct, charters for the committees of the Board of Directors and other corporate governance materials are available on our website, www.mcdermott.com, at “Corporate Governance” and are available in print to any stockholder who requests a copy in writing to McDermott International, Inc., Corporate Secretary’s Office, 777 N. Eldridge Parkway, Houston, Texas 77079. Information on how stockholders or other interested parties can contact McDermott’s non-management directors is also available on our website at “Corporate Governance – Board Committees.”

INVESTOR CONTACTS

Questions concerning McDermott’s operating and financial performance, or requests for additional information about the Company, should be directed to:

Jay Roueche or Robby Bellamy
Investor Relations
(281) 870-5011

Copies of the annual report and Form 10-K are available and may be obtained by contacting:

McDermott International, Inc.
4010 Woodlawn Blvd.
Providence, Rhode Island 02940-3078
(800) 446-2617

STOCK EXCHANGE

The Company’s common stock is listed on the New York Stock Exchange. Symbol: MDR

STOCKHOLDER INQUIRIES

Inquiries regarding stockholder account matters should be addressed to:

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P.O. Box 403787
Providence, Rhode Island
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ACCOUNTING FIRM FOR 2008

Deloitte & Touche LLP
111 Rugby
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Houston, Texas 77002-4196
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CATION 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, including statements relating to its backlog, to the extent backing may be viewed as an indicator of future revenues, our address and confidence in McDermott’s outlook, including that our perception of McDermott’s future revenue growth, based on our assessment of industry trends and our relationships with customers, is reasonable and consistent with our operating and financial performance, or our optimism and confidence in McDermott and its segments, including our opinion that McDermott’s future remains bright and worthy of long-term investment, our belief that our approach to nuclear power plants could be game changing; and the impact of acquisitions, joint ventures and alliances on our future operating and financial performance, or our strategies to enhance assets, expand geographically, re-enter the U.S. market and pursue acquisitions, involve uncertainties that may impact the Company’s future results of operations. Although McDermott’s management believes that the information about these and other risk factors, see McDermott’s annual report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission. Matters should be addressed to:

Jay Roueche or Robby Bellamy
Investor Relations
(281) 870-5011 or online at www.mcdermott.com
Fellow Shareholders: As we all know now, 2008 proved to be perhaps the most severe year for the global financial markets in generations. Credit and lending became paralyzed worldwide, commodity prices reached peaks only to collapse, numerous well-known companies failed or were on the brink, and governments across the globe initiated massive bailout programs in an effort to stem the crisis. The equity markets reflected these calamitous events, and virtually no investment was unscathed. The enormity of the financial crisis is evidenced by a review of the broad-based equity indices’ results for the year: the S&P 500 declined over 38%, the Dow Jones Industrial Average fell by a third, and the NASDAQ concluded its worst year ever by dropping over 40%.

But first, let me ensure that all readers have the same overview of our Company. McDermott is a leading engineering & construction company, with specialty manufacturing and service capabilities, focused on energy infrastructure. The Company operates through three reported segments:

- Offshore Oil & Gas Construction
- Power Generation Systems
- Government Operations

Together, these segments serve the major sources of energy – nuclear, coal, oil and gas – as well as a growing renewable portfolio, including biomass, solar and waste-to-energy. Our exclusive focus on the energy markets is a differentiating characteristic for our Company, and we believe energy will remain the key catalyst required for worldwide growth. As highlighted throughout this report, much of the energy that many consumers may take for granted, starts here… with McDermott.
Looking Back: 2008 in Review

Although 2008 may be a year investors choose to forget, there are numerous financial and operating highlights that are memorable. In many financial categories, the Company had one of the best years — if not the best year — in our long history. For the complete details of our financial results, I recommend you fully review the attached Form 10-K, but a partial summary of the major accomplishments includes:

- Full-year revenues for 2008 exceeded $6.5 billion, a record top-line for the Company
- Total operating income was nearly $570 million, representing an operating margin of 8.6%
- Two of our segments — Power Generation Systems and Government Operations — generated record operating income for their respective businesses
- Net Income of $429.3 million, representing $1.86 per share, was the second best year in Company history, trailing only 2007
- Backlog of $9.8 billion ended the year near the high end of Company history
- The Company’s financial position remained strong with $1.1 billion in cash, equivalents and investments with virtually no funded debt outstanding
- McDermott subsidiaries completed three acquisitions during the year at a total cost of approximately $200 million
- Our Company’s safety statistics remain among the best in our industry

Notwithstanding the numerous achievements, we also encountered execution problems that muted much of the enthusiasm. In our Offshore Oil & Gas Construction segment, difficulties with a small number of projects in the Middle East resulted in approximately $160 million in project losses. After achieving over $400 million in segment income during 2007, the Offshore business earned only $146 million of segment income during 2008. Although this level of income would still be labeled a good year by historical comparisons, the year-over-year decline coupled with a lower margin outlook in the near-term was a sobering development. Going forward, we will address a number of lessons learned from this experience. However, our other two reported segments achieved new record levels of segment income — exceeding our expectations.

Overall, we would term 2008 as a mixed year. The Company delivered numerous highlights but not without challenges along the way, obviously including the decline in McDermott’s valuation. However, I believe that our segments and employees are resilient, our business model with diversified customers and projects is sound, and that McDermott’s future remains bright and worthy of long-term investment.
APPROXIMATELY 90% OF ELECTRICITY IN THE U.S. IS GENERATED BY COAL, NUCLEAR AND NATURAL GAS. McDERMOTT’S POWER GENERATION SYSTEMS SEGMENT IS A LEADING SUPPLIER FOR COAL AND NUCLEAR POWER PLANTS, AND OFFSHORE OIL & GAS CONSTRUCTION PARTICIPATES IN LARGE LIQUEFIED NATURAL GAS PROJECTS WORLDWIDE.
CRUDE OIL IS THE VITAL INGREDIENT FOR GASOLINE. OVER 35% OF CRUDE OIL IS PRODUCED FROM OFFSHORE FIELDS. McDERMOTT IS ONE OF THE LARGEST TURNKEY CONTRACTORS OF OFFSHORE FACILITIES, PIPELINES AND SUBSEA SYSTEMS.
Powering Ahead: 2009 and Beyond

Regardless of recent results or a stock’s historical performance, a significant determinant of a company’s value today is the market’s expectations for its future. Our Board of Directors, working in conjunction with management, set a path forward a number of years ago with a strategy to enhance existing assets, expand geographically, re-enter the U.S. commercial nuclear market, pursue opportunistic acquisitions and, importantly, earn appropriate returns on all invested capital. These continue as our guideposts for the future.

Shorter-term, clearly, the Company’s first goal is to complete the Middle East projects that recorded losses for McDermott in 2008 at or better than the revised cost-to-complete estimates. We view this challenge as an opportunity. Probably the best demonstration of our commitment to customers and shareholders will be to fulfill our obligations, within the current cost estimates, at the agreed-upon schedule and to utilize the knowledge from this experience to prevent it from recurring.

In addition, we will continue to integrate the three acquisitions the Company made during 2008. We are pleased with the outstanding companies that joined the McDermott family this year. They each bring valuable franchises and outstanding personnel to our enterprise. However, buying great businesses alone isn’t sufficient. Our requirement is to maximize the growth opportunities and synergies that are available from a combined entity. We view the completion of an acquisition as the beginning of the value creation process for our shareholders, not the end.

As we continue to fulfill the aforementioned items commenced in the 2008 year, our new initiatives this year will follow the path forward established with the Board. However, with economic uncertainties continuing, the return we require from investments has increased. While we view financial flexibility as paramount – maintaining strong liquidity and borrowing capacity – opportunities are certainly available that we intend to pursue.

We have announced plans to enter Kazakhstan and China, as well as expand our Mexican facility, in the Offshore Construction business. We continue to explore opportunities to enhance our marine construction fleet. In our Power business, we are making progress and proceeding with our R&D efforts on CO₂ capture and sequestration from coal-fired power plants – continuing our tradition of providing technological solutions for environmental issues. With our Government business’ acquisitions and record new awards of late, there is solid opportunity ahead in this segment as well.

Further out, we have announced a venture with a leading health care provider to utilize our nuclear expertise for the ultimate manufacture of medical isotopes used for imaging. McDermott also has plans to offer a new approach for nuclear power plants which could be game-changing. The plants envisioned would be modular, scalable and cost-competitive with other alternatives for offering new electricity generation to the power grid. These are just a few examples – but our path forward is not limited by lack of opportunities – if anything, the current constraints could be a sufficient number of qualified people, capital availability and the current economic uncertainty.
McDermott will power ahead in 2009 and beyond. The opportunities available to our Company are too large, the need for our services too great and the risk of inaction too high for the Company to turn timid. McDermott’s culture is to be humble in good times and confident in challenging ones. Reasonable people may disagree where the financial world, or our Company, is located on that scale, but McDermott and our people are looking to the future exhibiting both characteristics.

Energy Starts Here

As you may be aware, my tenure as Chief Executive Officer and a Board Member of McDermott began on October 1, 2008 in the midst of the global turmoil. I am humbled and honored to serve. The Company is fortunate that Ron Cambre commenced his new role as Chairman of the Board of Directors on the same date, following many years as a valued Board Member of the Company. Our shareholders’ interests will be represented by Mr. Cambre’s leadership of the Board and the management team will benefit from his strong business acumen. And, on behalf of all constituency groups – I want to thank my friend and mentor, former Chairman and Chief Executive Officer Bruce W. Wilkinson, for his leadership of McDermott over the last eight years. McDermott is a much stronger company today as a result of Bruce’s extensive efforts.

Although I bring over 29 years of experience with McDermott, my intention in the CEO role is to provide a fresh spark throughout the organization. Energy will start here, with me, just as the energy you consume frequently begins with McDermott. While there’s no question that McDermott has improved significantly over the last few years, I fully recognize that no one is satisfied with the status quo and that continuous improvement is the standard by which the Company will be judged. The Board of Directors, my management team and each employee of the Company embrace this principle, even as the business environment remains challenged.

McDermott is comprised of individuals, but it is not a company for individuals. What makes McDermott special is how my 26,400 co-workers come together under common purpose and work as a team. Energy Starts Here as a result of their efforts. I thank each of them for the vital role they serve. And, finally, I thank you – McDermott’s owners – for allowing me to lead this outstanding Company.

All the best,

John A. Fees  
Chief Executive Officer
THE UNITED STATES GOVERNMENT IS MCDERMOTT’S LARGEST SINGLE CUSTOMER. THE GOVERNMENT OPERATIONS SEGMENT SUPPLIES NUCLEAR POWER SYSTEMS FOR THE NAVY’S AIRCRAFT CARRIER AND SUBMARINE FLEET. WE ARE ALSO ACTIVE IN GOVERNMENT-SPONSORED NUCLEAR OPERATIONS, RESEARCH AND NON-PROLIFERATION INITIATIVES.
McDermott’s history dates back to the 1860s and today the Company operates through two franchise names: J. Ray McDermott (“J. Ray”) and The Babcock & Wilcox Company (“B&W”). The operations and results of J. Ray are included in our Offshore Oil & Gas Construction segment, while B&W’s operations and results are recognized in both the Power Generation Systems segment and the Government Operations segment.
2008 HIGHLIGHTS

- Produced record annual segment income of $315.4 million in 2008
- The Weston 4 supercritical power plant earned Power magazine’s 2008 Plant of the Year award. This segment was a significant contractor on the Weston project.
- Completed acquisitions to expand the segment’s operations and maintenance capabilities for power plants and increase its commercial nuclear offerings
- Ranked #2 in Engineering News-Record’s Power category for Top 400 Contractors, including:
  - #1 in Fossil Fuel, #2 in Cogeneration, #5 in Nuclear Plants and #7 in Operations & Maintenance in their Power subcategories
- Established new 7,500 sq. ft. pilot plant at the Research Center in Ohio to study CO₂ capture technology using regenerable solvent absorption technology (RSAT™)
- Total Recordable Incident Rate of 1.87%, well below the industry standard
- Signed multi-year license to provide boiler technology in India
- Manufactured over 8,000 MW of new advanced boilers at Chinese JV
- Developed advanced technology for oil sands and biomass use
- Supplied biomass gasification solutions to major power plants in Italy and Japan

2008 HIGHLIGHTS

- Achieved new annual financial records in 2008 including: revenues of $850 million, segment income over $150 million and year-end backlog of nearly $2.9 billion
- Completed the acquisition of Nuclear Fuel Services to strengthen the segment’s nuclear fuel fabrication and service capabilities
- Awarded $1.5 billion in new government contracts
- Ranked #5 in Engineering News-Record’s Nuclear Waste subcategory for Top 400 Contractors
- Successfully integrated Marine Mechanical Corporation, acquired in 2007, into our Nuclear Operations Group
- Finished modifications to Clinch River manufacturing site in Tennessee and shipped first production components to a commercial uranium enrichment project
- Part of team that was awarded six-year contract to manage the liquid waste environmental efforts at the Department of Energy’s Savannah River site
- Signed agreement to develop nuclear reactors for medical isotope production
- Maintained safety focus with Total Recordable Incident Rate of 1.05%
OFFICERS OF MCDERMOTT INTERNATIONAL, INC. AND SUBSIDIARIES

CORPORATE STAFF

John A. Fees
Chief Executive Officer

Liane K. Hinrichs
Senior Vice President, General Counsel and Corporate Secretary

Preston Johnson, Jr.
Senior Vice President, Human Resources

Michael S. Taff
Senior Vice President and Chief Financial Officer

Dennis S. Baldwin
Vice President and Chief Accounting Officer

Thomas A. Henzler
Vice President and Corporate Compliance Officer

Claire P. Hunter
Vice President, Litigation, Claims and Disputes

John C. Knowles
Vice President and Chief Information Officer

John D. Krueger
Vice President, Corporate Development and Strategic Planning

James C. Lewis
Vice President and Treasurer

John E. Roueche, III
Vice President, Investor Relations and Corporate Communications

J. Timothy Woodard
Vice President, Chief Risk Officer

J. RAY MCDERMOTT, S.A.

Robert A. Deason
President and Chief Executive Officer

John T. Nesser, III
Executive Vice President and Chief Operating Officer

John T. McCormack
Senior Vice President, Operations

William R. Robinson
Senior Vice President, Sales, Marketing, Strategic Planning

David P. Roquemore
Senior Vice President, Operations

Jeff. J. Hightower
Vice President and Controller

Daniel M. Houser
Vice President and General Manager, Europe and Central Asia

Peter A. Marler
Vice President and General Manager, Business Development Southern Europe, Africa, Middle East

Steven W. Roll
Vice President, Global Sales

William L. Soester
Vice President, Engineering

THE BABCOCK & WILCOX COMPANY

Brandon C. Bethards
President and Chief Executive Officer

S. Robert Cochran
President, Babcock & Wilcox Technical Services Group, Inc.

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

Richard L. Killion
President & Chief Operating Officer, Babcock & Wilcox Power Generation Group, Inc.

Winfred D. Nash
President, Babcock & Wilcox Nuclear Operations Group, Inc.

Richard E. Reimels
President, Babcock & Wilcox Nuclear Power Generation Group, Inc.

Christofer M. Mowry
Senior Vice President and Chief Business Development Officer

David S. Black
Vice President and Controller

J. Randall Data
Vice President and General Manager, Fossil Power Division

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

Peter W. Waanders
Vice President and General Manager, Babcock & Wilcox Construction Co., Inc.
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<td>Revenues</td>
<td>$4,120,141</td>
<td>$5,631,610</td>
<td>$6,572,423</td>
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<tr>
<td>Operating Income</td>
<td>$391,541</td>
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<td>Net income</td>
<td>$330,226</td>
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<td>$1,216,172</td>
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- **Backlog Totals**
  - Dollars in millions
  - $7,633 06
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- (281) 870-5101

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- c/o Investor Relations
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- Houston, Texas 77079-4425
- (281) 870-5101 or online at www.mcdermott.com

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- 777 N. Eldridge Parkway
- Suite 2300
- Houston, Texas 77079-4425
- (713) 992-1100
- (800) 446-2617

For a more complete discussion of information about these and other risk factors, see McDermott’s annual report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission.

**CORPORATE GOVERNANCE**