

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

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 333-75899

TRANSOCEAN INC.

(Exact name of registrant as specified in its charter)

CAYMAN ISLANDS
(State or other jurisdiction
of incorporation or organization)

66-0582307
(I.R.S. Employer
Identification No.)

4 GREENWAY PLAZA
HOUSTON, TEXAS
(Address of principal executive offices)

77046
(Zip Code)

Registrant's telephone number, including area code: (713) 232-7500

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 whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 31, 2003, 319,887,560 ordinary shares, par value \$0.01 per
share, were outstanding.

TRANSOCEAN INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The condensed consolidated financial statements of Transocean Inc. and its consolidated subsidiaries (the "Company") included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and notes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

TRANSOCEAN INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Operating Revenues				
Contract drilling revenues	\$ 576.6	\$ 646.2	\$ 1,166.2	\$ 1,314.1
Client reimbursable revenues	27.3	-	53.7	-
	603.9	646.2	1,219.9	1,314.1
Costs and Expenses				
Operating and maintenance	426.5	365.6	800.6	746.6
Depreciation	127.5	124.3	254.3	249.9
General and administrative	14.9	16.0	28.8	35.8
Impairment loss on long-lived assets	15.8	-	16.8	1.1
(Gain) loss from sale of assets, net	(0.6)	1.3	(2.0)	(0.6)
	584.1	507.2	1,098.5	1,032.8
Operating Income	19.8	139.0	121.4	281.3
Other Income (Expense), net				
Equity in earnings of joint ventures	1.8	2.5	5.4	4.4
Interest income	5.8	5.7	12.7	9.9
Interest expense	(52.8)	(52.5)	(105.4)	(108.4)
Loss on retirement of debt	(15.7)	-	(15.7)	-
Loss on impairment of note receivable from related party	(21.3)	-	(21.3)	-
Other, net	(2.7)	(0.4)	(3.3)	(1.1)
	(84.9)	(44.7)	(127.6)	(95.2)
Income (Loss) Before Income Taxes, Minority Interest and Cumulative Effect of a Change in Accounting Principle	(65.1)	94.3	(6.2)	186.1
Income Tax Expense (Benefit)	(20.8)	13.9	(9.0)	27.7
Minority Interest	0.2	0.4	0.1	1.1
Net Income (Loss) Before Cumulative Effect of a Change in Accounting Principle	(44.5)	80.0	2.7	157.3
Cumulative Effect of a Change in Accounting Principle	-	-	-	(1,363.7)
Net Income (Loss)	\$ (44.5)	\$ 80.0	\$ 2.7	\$ (1,206.4)
Basic Earnings (Loss) Per Share				
Income (Loss) Before Cumulative Effect of a Change in Accounting Principle	\$ (0.14)	\$ 0.25	\$ 0.01	\$ 0.49
Loss on Cumulative Effect of a Change in Accounting Principle	-	-	-	(4.27)
Net Income (Loss)	\$ (0.14)	\$ 0.25	\$ 0.01	\$ (3.78)
Diluted Earnings (Loss) Per Share				
Income (Loss) Before Cumulative Effect of a Change in Accounting Principle	\$ (0.14)	\$ 0.25	\$ 0.01	\$ 0.49
Loss on Cumulative Effect of a Change in Accounting Principle	-	-	-	(4.22)
Net Income (Loss)	\$ (0.14)	\$ 0.25	\$ 0.01	\$ (3.73)
Weighted Average Shares Outstanding				
Basic	319.8	319.1	319.7	319.1
Diluted	319.8	323.9	321.5	323.6
Dividends Paid per Share	\$ -	\$ 0.03	\$ -	\$ 0.06

See accompanying notes.

TRANSOCEAN INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income (loss)	\$ (44.5)	\$ 80.0	\$ 2.7	\$ (1,206.4)
Other comprehensive income (loss), net of tax				
Amortization of gain on terminated interest rate swaps	(0.1)	-	(0.1)	(0.1)
Change in unrealized loss on securities available for sale	0.2	-	0.2	0.1
Change in share of unrealized loss in unconsolidated joint venture's interest rate swaps	1.4	(1.0)	1.1	2.1
Minimum pension liability adjustments	0.1	-	0.8	-
Other comprehensive income (loss)	1.6	(1.0)	2.0	2.1
Total comprehensive income (loss)	\$ (42.9)	\$ 79.0	\$ 4.7	\$ (1,204.3)

See accompanying notes.

TRANSOCEAN INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)
(Unaudited)

	June 30, 2003	December 31, 2002
	----- (Unaudited)	-----
ASSETS		
Cash and Cash Equivalents	\$ 714.0	\$ 1,214.2
Accounts Receivable, net of allowance for doubtful accounts of \$19.8 and \$20.8 at June 30, 2003 and December 31, 2002, respectively	442.3	499.3
Materials and Supplies, net of allowance for obsolescence of \$18.6 at June 30, 2003 and December 31, 2002	160.0	155.8
Deferred Income Taxes	19.7	21.9
Other Current Assets	91.0	20.5
Total Current Assets	1,427.0	1,911.7
Property and Equipment	10,196.5	10,198.0
Less Accumulated Depreciation	2,413.8	2,168.2
Property and Equipment, net	7,782.7	8,029.8
Goodwill, net	2,222.9	2,218.2
Investments in and Advances to Joint Ventures	68.3	108.5
Deferred Income Taxes	26.2	26.2
Other Assets	178.7	370.7
Total Assets	\$ 11,705.8	\$ 12,665.1
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LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts Payable	\$ 140.0	\$ 134.1
Accrued Income Taxes	64.4	59.5
Debt Due Within One Year	282.3	1,048.1
Other Current Liabilities	239.2	262.2
Total Current Liabilities	725.9	1,503.9
Long-Term Debt	3,476.0	3,629.9
Deferred Income Taxes	50.7	107.2
Other Long-Term Liabilities	291.7	282.7
Total Long-Term Liabilities	3,818.4	4,019.8
Commitments and Contingencies		
Preference Shares, \$0.10 par value; 50,000,000 shares authorized, none issued and outstanding	-	-
Ordinary Shares, \$0.01 par value; 800,000,000 shares authorized, 319,853,774 and 319,219,072 shares issued and outstanding at June 30, 2003 and December 31, 2002, respectively	3.2	3.2
Additional Paid-in Capital	10,638.5	10,623.1
Accumulated Other Comprehensive Loss	(29.5)	(31.5)
Retained Deficit	(3,450.7)	(3,453.4)
Total Shareholders' Equity	7,161.5	7,141.4
Total Liabilities and Shareholders' Equity	\$ 11,705.8	\$ 12,665.1
=====		

See accompanying notes.

TRANSOCEAN INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Six Months Ended June 30,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 2.7	\$ (1,206.4)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	254.3	249.9
Impairment loss on goodwill	-	1,363.7
Stock-based compensation expense	2.9	0.4
Deferred income taxes	(59.5)	(38.3)
Equity in earnings of joint ventures	(5.4)	(4.4)
Net loss from disposal of assets	7.8	2.3
Loss on retirement of debt	15.7	-
Impairment loss on long-lived assets	16.8	1.1
Impairment of note receivable from related party	21.3	-
Amortization of debt-related discounts/premiums, fair value adjustments and issue costs, net	(7.9)	2.9
Deferred income, net	(1.6)	(6.0)
Deferred expenses, net	2.7	7.0
Other, net	13.5	9.3
Changes in operating assets and liabilities		
Accounts receivable	51.6	84.1
Accounts payable and other current liabilities	4.0	(84.7)
Income taxes receivable/payable, net	9.6	22.3
Other current assets	(23.3)	(22.7)
Net Cash Provided by Operating Activities	305.2	380.5
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(50.2)	(81.2)
Note issued to related party, net of repayments	(45.3)	-
Proceeds from disposal of assets, net	3.2	65.0
Acquisition of 40 percent interest in Deepwater Drilling II L.L.C., net of cash acquired	18.1	-
Joint ventures and other investments, net	2.2	-
Net Cash Used in Investing Activities	(72.0)	(16.2)

See accompanying notes.

TRANSOCEAN INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Six Months Ended June 30,	
	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments under commercial paper program	-	(326.4)
Repayments on other debt instruments	(919.2)	(119.6)
Cash from termination of interest rate swaps	173.5	-
Decrease in cash dedicated to debt service	1.2	-
Net proceeds from issuance of ordinary shares under stock-based compensation plans	11.7	10.3
Dividends paid	-	(19.1)
Financing costs	(0.1)	(8.1)
Other, net	(0.5)	1.1
Net Cash Used in Financing Activities	(733.4)	(461.8)
Net Decrease in Cash and Cash Equivalents	(500.2)	(97.5)
Cash and Cash Equivalents at Beginning of Period	1,214.2	853.4
Cash and Cash Equivalents at End of Period	\$ 714.0	\$ 755.9

See accompanying notes.

TRANSOCEAN INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - PRINCIPLES OF CONSOLIDATION

Transocean Inc. (together with its subsidiaries and predecessors, unless the context requires otherwise, the "Company") is a leading international provider of offshore and inland marine contract drilling services for oil and gas wells. As of June 30, 2003, the Company owned, had partial ownership interests in or operated more than 160 mobile offshore and barge drilling units. The Company contracts its drilling rigs, related equipment and work crews primarily on a dayrate basis to drill oil and gas wells.

Intercompany transactions and accounts have been eliminated. The equity method of accounting is used for investments in joint ventures where the Company's ownership is between 20 and 50 percent and for investments in joint ventures owned more than 50 percent where the Company does not have control of the joint venture. The cost method of accounting is used for investments in joint ventures where the Company's ownership is less than 20 percent and the Company does not have control of the joint venture.

NOTE 2 - GENERAL

BASIS OF CONSOLIDATION - The accompanying condensed consolidated financial statements of the Company have been prepared without audit in accordance with accounting principles generally accepted in the United States ("U.S.") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, pursuant to such rules and regulations, these financial statements do not include all disclosures required by accounting principles generally accepted in the U.S. for complete financial statements. Operating results for the three and six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003 or for any future period. The accompanying condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

ACCOUNTING ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to bad debts, materials and supplies obsolescence, investments, intangible assets and goodwill, property and equipment and other long-lived assets, income taxes, financing operations, workers' insurance, pensions and other post-retirement and employment benefits and contingent liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from such estimates.

SUPPLEMENTARY CASH FLOW INFORMATION - Cash payments for interest and income taxes, net, were \$106.1 million and \$40.9 million, respectively, for the six months ended June 30, 2003 and \$109.8 million and \$44.2 million, respectively, for the six months ended June 30, 2002.

GOODWILL - In accordance with the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") 142, Goodwill and Other Intangible Assets, goodwill is tested for impairment at the reporting unit level, which is defined as an operating segment or a component of an operating segment that constitutes a business for which financial information is available and is regularly reviewed by management. Management has determined that the Company's reporting units are the same as its operating segments for the purpose of allocating goodwill and the subsequent testing of goodwill for impairment. Goodwill resulting from the merger transaction with Sedco Forex Holdings Limited was allocated 100 percent to the Company's International and U.S. Floater Contract Drilling Services segment. Goodwill resulting from the merger transaction (the "R&B Falcon merger") with R&B Falcon Corporation ("R&B Falcon", now known as "TODCO") was allocated to the Company's two reporting units,

TRANSOCEAN INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

International and U.S. Floater Contract Drilling Services and Gulf of Mexico Shallow and Inland Water, at a ratio of 68 percent and 32 percent, respectively. The allocation was determined based on the percentage of each reporting unit's assets at fair value to the total fair value of assets acquired in the R&B Falcon merger. The fair value was determined from a third party valuation.

During the first quarter of 2002, the Company implemented SFAS 142 and performed the initial test of impairment of goodwill on its two reporting units. The test was applied utilizing the estimated fair value of the reporting units as of January 1, 2002 determined based on a combination of each reporting unit's discounted cash flows and publicly traded company multiples and acquisition multiples of comparable businesses. There was no goodwill impairment for the International and U.S. Floater Contract Drilling Services reporting unit. However, because of deterioration in market conditions that affected the Gulf of Mexico Shallow and Inland Water business segment since the completion of the R&B Falcon merger, a \$1,363.7 million (\$4.22 per diluted share) impairment of goodwill was recognized as a cumulative effect of a change in accounting principle in the first quarter of 2002.

During the fourth quarter of 2002, the Company performed its annual test of goodwill impairment as of October 1. Due to a general decline in market conditions, the Company recorded a non-cash impairment charge of \$2,876.0 million (\$9.01 per diluted share) of which \$2,494.1 million and \$381.9 million related to the International and U.S. Floater Contract Drilling Services and Gulf of Mexico Shallow and Inland Water reporting units, respectively.

The Company's goodwill balance was \$2.2 billion as of June 30, 2003. The changes in the carrying amount of goodwill as of June 30, 2003 were as follows (in millions):

	Balance at January 1, 2003	Other (a)	Balance at June 30, 2003
International and U.S. Floater Contract Drilling Services	\$ 2,218.2	\$ 4.7	\$ 2,222.9

(a) Represents net unfavorable adjustments during 2003 of income tax-related pre-acquisition contingencies related to the R&B Falcon merger.

IMPAIRMENT OF OTHER LONG-LIVED ASSETS - The carrying value of long-lived assets, principally property and equipment, is reviewed for potential impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. For property and equipment held for use, the determination of recoverability is made based upon the estimated undiscounted future net cash flows of the related asset or group of assets being evaluated. Property and equipment held for sale are recorded at the lower of net book value or net realizable value. See Note 8.

INCOME TAXES - Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. The income tax rates imposed by these taxing authorities vary substantially. Taxable income may differ from pre-tax income for financial accounting purposes, particularly in countries with revenue-based taxes. There is no expected relationship between the provision for income taxes and income before income taxes because the countries in which we operate have different taxation regimes, which vary not only with respect to nominal rate but also in terms of the availability of deductions, credits, and other benefits. Variations also arise because income earned and taxed in any particular country or countries may fluctuate from period to period. These factors combined with lower expected financial results for the year are expected to lead to a higher effective tax rate than in 2002.

TRANSOCEAN INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

COMPREHENSIVE INCOME - The components of accumulated other comprehensive income (loss), net of tax, as of June 30, 2003 and December 31, 2002 are as follows (in millions):

	Gain on Terminated Interest Rate Swap	Unrealized Loss on Available- for-Sale Securities	Other Comprehensive Loss Related to Unconsolidated Joint Venture	Minimum Pension Liability	Total Other Comprehensive Income (Loss)
	-----	-----	-----	-----	-----
Balance at December 31, 2002	\$ 3.6	\$ (0.6)	\$ (2.0)	\$ (32.5)	\$ (31.5)
Other comprehensive income (loss), net of tax	(0.1)	0.2	1.1	0.8	2.0
	-----	-----	-----	-----	-----
Balance at June 30, 2003	\$ 3.5	\$ (0.4)	\$ (0.9)	\$ (31.7)	\$ (29.5)
	=====	=====	=====	=====	=====

SEGMENTS - The Company's operations are aggregated into two reportable segments: (i) International and U.S. Floater Contract Drilling Services and (ii) Gulf of Mexico Shallow and Inland Water. The Company provides services with different types of drilling equipment in several geographic regions. The location of the Company's operating assets and the allocation of resources to build or upgrade drilling units is determined by the activities and needs of clients. See Note 7.

INTERIM FINANCIAL INFORMATION - The condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair statement of results of operations for the interim periods. Such adjustments are considered to be of a normal recurring nature unless otherwise identified.

STOCK-BASED COMPENSATION - Through December 31, 2002 and in accordance with the provisions of SFAS 123, Accounting for Stock-Based Compensation, the Company had elected to follow the Accounting Principles Board Opinion ("APB") 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its employee stock-based compensation plans. Effective January 1, 2003, the Company adopted the fair value method of accounting for stock-based compensation using the prospective method of transition under SFAS 123.

TRANSOCEAN INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

If compensation expense for grants to employees under the Company's long-term incentive plan and employee stock purchase plan prior to January 1, 2003 was recognized using the fair value method of accounting under SFAS 123 rather than the intrinsic value method under APB 25, net income (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated below (in millions, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net Income (Loss) as Reported	\$ (44.5)	\$ 80.0	\$ 2.7	\$(1,206.4)
Add back: Stock-based compensation expense included in reported net income (loss), net of related tax effects	1.3	0.2	2.5	0.4
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects				
Long-Term Incentive Plan	(3.7)	(5.7)	(8.3)	(10.1)
Employee Stock Purchase Plan	(1.2)	(0.6)	(2.1)	(1.2)
Pro Forma Net Income (Loss)	\$ (48.1)	\$ 73.9	\$ (5.2)	\$(1,217.3)
Basic Earnings (Loss) Per Share				
As Reported	\$ (0.14)	\$ 0.25	\$ 0.01	\$ (3.78)
Pro Forma	(0.15)	0.23	(0.02)	(3.81)
Diluted Earnings (Loss) Per Share				
As Reported	\$ (0.14)	\$ 0.25	\$ 0.01	\$ (3.73)
Pro Forma	(0.15)	0.23	(0.02)	(3.76)

NEW ACCOUNTING PRONOUNCEMENTS - In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 (the "Interpretation"). The Interpretation requires the consolidation of entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. The Interpretation is effective as of the beginning of the first interim period beginning after June 15, 2003 for existing interests and immediately for new interests. Currently, the Company generally consolidates an entity when it has a controlling interest through ownership of a majority voting interest in the entity.

The Company has investments in and advances to six joint ventures. One joint venture, Deepwater Drilling L.L.C. ("DD LLC"), was established for the purpose of constructing and leasing a drillship. One joint venture, Delta Towing Holdings, LLC ("Delta Towing"), was established for the purpose of owning and operating inland and shallow water marine support vessel equipment. The remaining four joint ventures were primarily established for the purpose of owning and operating certain drilling units. While the operations of DD LLC are funded by cash flows from operating activities, the Company guarantees the debt and equity financing on the drillship equally with its joint venture partner. The debt and equity financing balance for the leased drillship was \$194.1 million at June 30, 2003. The Company holds notes receivable from the Delta Towing joint venture with a carrying value of \$54.8 million at June 30, 2003. The remaining joint ventures are funded primarily by cash flows from operating activities.

The Company accounts for these investments using the equity method of accounting, recording its share of the net income or loss based upon the terms of the joint venture agreements. Because the Company has a 50 percent or less ownership interest in these joint ventures, it does not have a controlling interest in the joint ventures nor does it have the ability to exercise significant influence over operating and financial policies.

TRANSOCEAN INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

At the time the Delta Towing joint venture was formed, it issued \$144.0 million in notes to TODCO. Prior to the R&B Falcon merger, \$64.0 million of the notes were fully reserved leaving an \$80.0 million balance at January 31, 2001. This note agreement was subsequently amended to provide for a \$4.0 million, three-year revolving credit facility. Delta Towing's assets serve as collateral for the Company's notes receivable. The Delta Towing joint venture also issued a \$3.0 million note to the 75 percent joint venture partner. Because the Company has the largest percentage of investment at risk through the notes receivable and Delta Towing's equity is not sufficient to absorb its expected losses, the Company is expected to absorb the majority of the joint venture's expected losses and, therefore, the Company is deemed to be the primary beneficiary of Delta Towing for accounting purposes. As such, the Company will consolidate Delta Towing effective July 1, 2003. The Company expects the consolidation of Delta Towing to result in an increase in current assets of approximately \$5.0 million, an increase in property and equipment, net of approximately \$55.0 million, a decrease in investments in and advances to joint ventures of approximately \$55.0 million, an increase in current liabilities of approximately \$1.0 million and an increase in long-term debt of approximately \$3.0 million.

The Company is currently evaluating the effects of adopting the Interpretation on the accounting for its ownership interest in its other joint ventures.

The Company has a wholly owned subsidiary, Deepwater Drilling II L.L.C. ("DDII LLC"), that was established as a joint venture with a major oil company for the purpose of constructing and leasing a drillship, the Deepwater Frontier. The drillship was purchased by a trust that was established to finance the purchase through debt and equity financing, which the Company, under certain circumstances, fully guarantees. On May 29, 2003, the Company purchased the entire 40 percent interest of the major oil company in DDII LLC. The Company currently accounts for DDII LLC's lease of the drillship as an operating lease. The balance of the trust's debt and equity financing at June 30, 2003 was approximately \$162.0 million. Because the Company is at risk for this amount, the Company is deemed to be the primary beneficiary of the trust for accounting purposes and will consolidate the trust effective July 1, 2003. The drillship serves as collateral for the trust's debt and equity financing. Effective with the consolidation of the trust, the debt and equity financing to be reflected in the Company's balance sheet will be approximately \$153.0 million and \$9.0 million, respectively. The debt financing will be reflected as debt due within one year while the equity financing will be reflected as minority interest within other long-term liabilities in the Company's balance sheet. In addition, the Company will record approximately \$207.0 million for the drillship as property and equipment, net in its balance sheet and will eliminate its notes receivable to related party of \$45.3 million (see Note 11).

Effective January 2003, the Company implemented Emerging Issues Task Force ("EITF") Issue No. 99-19, Reporting Revenues Gross as a Principal versus Net as an Agent. As a result of the implementation of the EITF, the costs incurred and charged to the Company's clients on a reimbursable basis are recognized as operating and maintenance expense. In addition, the amounts billed to the Company's clients associated with these reimbursable costs are being recognized as client reimbursable revenue. Management expects client reimbursable revenues and operating and maintenance expense to be between \$90 million and \$110 million in 2003 as a result of the implementation of EITF 99-19. The change in accounting principle will have no effect on the Company's results of operations or consolidated financial position. Prior periods have not been reclassified, as these amounts were not material.

In May 2003, the FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This statement requires an issuer to measure and classify as liabilities certain financial instruments that have characteristics of both liabilities and equity as liabilities. SFAS 150 applies to those instruments that represent, or are indexed to, an obligation to buy back the issuer's shares and obligations that can be settled in shares and meet certain conditions. It does not, however, apply to financial instruments that are indexed to and potentially settled in an issuer's own shares. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company will adopt this statement effective July 1, 2003. However, management does not expect the

TRANSOCEAN INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

adoption of this statement to have a material effect on the Company's consolidated financial position or results of operations.

RECLASSIFICATIONS - Certain reclassifications have been made to prior period amounts to conform with the current period's presentation.

NOTE 3 - DEBT

Debt, net of unamortized discounts, premiums and fair value adjustments, is comprised of the following (in millions):

	June 30, 2003	December 31, 2002
	-----	-----
6.5% Senior Notes, due April 2003	\$ -	\$ 239.7
9.125% Senior Notes, due December 2003	88.2	89.5
Amortizing Term Loan Agreement - Final Maturity December 2004	225.0	300.0
6.75% Senior Notes, due April 2005 (a)	365.4	371.8
7.31% Nautilus Class A1 Amortizing Notes - Final Maturity May 2005	84.6	104.7
9.41% Nautilus Class A2 Notes, due May 2005	-	51.7
6.95% Senior Notes, due April 2008 (a)	271.6	277.2
9.5% Senior Notes, due December 2008 (a)	362.7	371.8
6.625% Notes, due April 2011 (a)	802.8	803.7
7.375% Senior Notes, due April 2018	250.5	250.5
Zero Coupon Convertible Debentures, due May 2020 (put options exercisable May 2008 and May 2013) (b)	16.3	527.2
1.5% Convertible Debentures, due May 2021 (put options exercisable May 2006, May 2011 and May 2016)	400.0	400.0
8% Debentures, due April 2027	198.1	198.0
7.45% Notes, due April 2027 (put options exercisable April 2007)	94.7	94.6
7.5% Notes, due April 2031	597.4	597.4
Other	1.0	0.2
	-----	-----
Total Debt	3,758.3	4,678.0
Less Debt Due Within One Year (b)	282.3	1,048.1
	-----	-----
Total Long-Term Debt	\$ 3,476.0	\$ 3,629.9
	=====	=====

- (a) At December 31, 2002, the Company was a party to interest rate swap agreements with respect to these debt instruments. See Note 6.
- (b) At December 31, 2002, the Zero Coupon Convertible Debentures were classified as debt due within one year since the put options were exercisable in May 2003. At June 30, 2003, the remaining balance was classified as long-term debt.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The scheduled maturity of the face value of the Company's debt assumes the bondholders exercise their options to require the Company to repurchase the 1.5% Convertible Debentures, 7.45% Notes and Zero Coupon Convertible Debentures in May 2006, April 2007 and May 2008, respectively, and is as follows for the twelve months ending June 30 (in millions):

2004	\$ 281.2
2005	467.3
2006	400.0
2007	100.0
2008	269.0
Thereafter	2,050.0

Total	\$3,567.5
	=====

Commercial Paper Program - The Company has two revolving credit agreements, described below, which provide liquidity for commercial paper borrowings. At June 30, 2003, no amounts were outstanding under the Commercial Paper Program.

Revolving Credit Agreements - The Company is a party to two revolving credit agreements, a \$550.0 million five-year revolving credit agreement dated December 29, 2000 and a \$250.0 million 364-day revolving credit agreement dated December 26, 2002. In addition to providing for commercial paper borrowings, these credit lines may also be drawn on directly. At June 30, 2003, no amounts were outstanding under either of these revolving credit agreements.

Term Loan Agreement - The Company is a party to an amortizing unsecured five-year term loan agreement dated December 16, 1999. Amounts outstanding under the Term Loan Agreement bear interest, at the Company's option, at a base rate or London Interbank Offered Rate ("LIBOR") plus a margin that varies depending on the Company's senior unsecured public debt rating. At June 30, 2003, the margin was 0.70 percent per annum. The debt began to amortize in March 2002, at a rate of \$25.0 million per quarter in 2002. In 2003 and 2004, the debt amortizes at a rate of \$37.5 million per quarter. As of June 30, 2003, \$225.0 million was outstanding under this agreement.

Exchange Offer - In March 2002, the Company completed exchange offers and consent solicitations for TODCO's 6.5%, 6.75%, 6.95%, 7.375%, 9.125% and 9.5% Senior Notes ("the Exchange Offer"). As a result of the Exchange Offer, approximately \$234.5 million, \$342.3 million, \$247.8 million, \$246.5 million, \$76.9 million and \$289.8 million principal amount of TODCO's outstanding 6.5%, 6.75%, 6.95%, 7.375%, 9.125% and 9.5% Senior Notes, respectively, were exchanged for the Company's newly issued 6.5%, 6.75%, 6.95%, 7.375%, 9.125% and 9.5% Senior Notes having the same principal amount, interest rate, redemption terms and payment and maturity dates. Because the holders of a majority in principal amount of each of these series of notes consented to the proposed amendments to the applicable indenture pursuant to which the notes were issued, some covenants, restrictions and events of default were eliminated from the indentures with respect to these series of notes. After the Exchange Offer, approximately \$5.0 million, \$7.7 million, \$2.2 million, \$3.5 million, \$10.2 million and \$10.2 million principal amount of the outstanding 6.5% (see "-Retired and Repurchased Debt"), 6.75%, 6.95%, 7.375%, 9.125% and 9.5% Senior Notes, respectively, not exchanged remain the obligation of TODCO. These notes are combined with the notes of the corresponding series issued by the Company in the above table. In connection with the Exchange Offer, TODCO paid \$8.3 million in consent payments to holders of TODCO's notes whose notes were exchanged. The consent payments are being amortized as an increase to interest expense over the remaining term of the respective notes and such amortization is expected to be approximately \$1.1 million in 2003.

Retired and Repurchased Debt - In April 2003, the Company repaid all of the \$239.5 million principal amount outstanding 6.5% Senior Notes, plus accrued and unpaid interest, in accordance with their scheduled maturity. The Company funded the repayment from existing cash balances.

TRANSOCEAN INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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In May 2003, the Company repurchased and retired all of the \$50.0 million principal amount outstanding 9.41% Nautilus Class A2 Notes due May 2005 and funded the repurchase from existing cash balances. The Company recognized a loss on the early retirement of debt of approximately \$3.6 million (\$0.01 per diluted share), net of tax of \$1.9 million, in the second quarter of 2003.

In April 2003, the Company announced that holders of its Zero Coupon Convertible Debentures due May 24, 2020 had the option to require the Company to repurchase their debentures in May 2003. Holders of \$838.6 million aggregate principal amount, or approximately 97 percent, of these debentures exercised this option and the Company repurchased their debentures at a repurchase price of \$628.57 per \$1,000 principal amount. Under the terms of the debentures, the Company had the option to pay for the debentures with cash, the Company's ordinary shares, or a combination of cash and shares, and elected to pay the \$527.2 million repurchase price from existing cash balances. The Company recognized additional expense of approximately \$10.2 million (\$0.03 per diluted share) as an after-tax loss on retirement of debt in the second quarter of 2003 to fully amortize the remaining debt issue costs related to the repurchased debentures. The holders of the \$26.4 million aggregate principal amount of debentures that remain outstanding have the right to require the Company to repurchase the debentures in May 2008 at a price of \$720.55 per \$1,000 principal amount. The Company also has the right to redeem the remaining debentures at any time at a price equal to the debentures' then accreted value. The outstanding debentures are convertible, at the option of the holder, into 8.1566 of the Company's ordinary shares per \$1,000 principal amount, subject to adjustment under certain circumstances.

NOTE 4 - INCOME TAXES

In June 2003, the Company recorded a \$14.6 million (\$0.04 per diluted share) foreign tax benefit attributable to the favorable resolution of a non-U.S. income tax liability, as well as tax benefits resulting from non-cash impairments and loss on debt retirements. As a result of the deterioration in 2003 profitability, the annual effective tax rate is now estimated to be approximately 38 percent during 2003 on earnings before asset impairments, note receivable impairments and loss on debt retirements. Due to the change in the estimated annual effective tax rate from approximately 20 percent at March 31, 2003, earnings for the three months ended June 30, 2003 were reduced by \$10.7 million (\$0.03 per diluted share) as a result of applying the adjusted estimated annual effective tax rate to the three months ended March 31, 2003.

NOTE 5 - FINANCIAL INSTRUMENTS AND RISK CONCENTRATION

Foreign Exchange Risk - The Company's international operations expose the Company to foreign exchange risk. This risk is primarily associated with compensation costs denominated in currencies other than the U.S. dollar and with purchases from foreign suppliers. The Company uses a variety of techniques to minimize exposure to foreign exchange risk, including customer contract payment terms and foreign exchange derivative instruments.

The Company's primary foreign exchange risk management strategy involves structuring customer contracts to provide for payment in both U.S. dollars and local currency. The payment portion denominated in local currency is based on anticipated local currency requirements over the contract term. Due to various factors, including local banking laws, other statutory requirements, local currency convertibility and the impact of inflation on local costs, actual foreign exchange needs may vary from those anticipated in the customer contracts, resulting in partial exposure to foreign exchange risk. Fluctuations in foreign currencies typically have minimal impact on overall results. In situations where payments of local currency do not equal local currency requirements, foreign exchange derivative instruments, specifically foreign exchange forward contracts, or spot purchases may be used. A foreign exchange forward contract obligates the Company to exchange predetermined amounts of specified foreign currencies at specified exchange rates on specified dates or to make an equivalent U.S. dollar payment equal to the value of such exchange.

The Company does not enter into derivative transactions for speculative purposes. At June 30, 2003, the Company had no material open foreign exchange contracts.

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In January 2003, Venezuela implemented foreign exchange controls that limit the Company's ability to convert local currency into U.S. dollars and transfer excess funds out of Venezuela. The Company's drilling contracts in Venezuela typically call for payments to be made in local currency, even when the dayrate is denominated in U.S. dollars. The exchange controls could also result in an artificially high value being placed on the local currency. As a result, the Company recognized a loss of \$1.5 million, net of tax of \$0.8 million, on the revaluation of the local currency into functional U.S. dollars for the six months ended June 30, 2003.

NOTE 6 - INTEREST RATE SWAPS

In June 2001, the Company entered into interest rate swap agreements in the aggregate notional amount of \$700.0 million with a group of banks relating to the Company's \$700.0 million aggregate principal amount of 6.625% Notes due April 2011. In February 2002, the Company entered into interest rate swap agreements with a group of banks in the aggregate notional amount of \$900.0 million relating to the Company's \$350.0 million aggregate principal amount of 6.75% Senior Notes due April 2005, \$250.0 million aggregate principal amount of 6.95% Senior Notes due April 2008 and \$300.0 million aggregate principal amount of 9.5% Senior Notes due December 2008. The objective of each transaction was to protect the debt against changes in fair value due to changes in the benchmark interest rate. Under each interest rate swap, the Company received the fixed rate equal to the coupon of the hedged item and paid the floating rate (LIBOR) plus a margin of 50 basis points, 246 basis points, 171 basis points and 413 basis points, respectively, which were designated as the respective benchmark interest rates, on each of the interest payment dates until maturity of the respective notes. The hedges were considered perfectly effective against changes in the fair value of the debt due to changes in the benchmark interest rates over their term. As a result, the shortcut method applied and there was no requirement to periodically reassess the effectiveness of the hedges during the term of the swaps.

In January 2003, the Company terminated the swaps with respect to its 6.75%, 6.95% and 9.5% Senior Notes. In March 2003, the Company terminated the swaps with respect to its 6.625% Notes. As a result of these terminations, the Company received cash proceeds, net of accrued interest, of approximately \$173.5 million that was recognized as a fair value adjustment to long-term debt in the Company's consolidated balance sheet and is being amortized as a reduction to interest expense over the life of the underlying debt. Such reduction is expected to be approximately \$23.1 million (\$0.07 per diluted share) in 2003.

DD LLC, an unconsolidated subsidiary in which the Company has a 50 percent ownership interest, entered into interest rate swaps in August 1998 that have aggregate market values netting to a liability of \$2.9 million at June 30, 2003. The Company's interest in these swaps has been included in accumulated other comprehensive income, net of tax, with corresponding reductions to deferred income taxes and investments in and advances to joint ventures.

NOTE 7 - SEGMENTS

The Company's operations are aggregated into two reportable segments: (i) International and U.S. Floater Contract Drilling Services and (ii) Gulf of Mexico Shallow and Inland Water. The International and U.S. Floater Contract Drilling Services segment consists of fifth-generation semisubmersibles and drillships, other deepwater semisubmersibles and drillships, mid-water semisubmersibles and drillships, non-U.S. jackup drilling rigs, other mobile offshore drilling units and other assets used in support of offshore drilling activities and offshore support services. The Gulf of Mexico Shallow and Inland Water segment consists of jackup and submersible drilling rigs and inland drilling barges located in the U.S. Gulf of Mexico and Trinidad, as well as land and lake barge drilling units located in Venezuela. The Company provides services with different types of drilling equipment in several geographic regions. The location of the Company's rigs and the allocation of resources to build or upgrade rigs is determined by the activities and needs of clients. Accounting policies of the segments are the same as those described in Note 2. The Company accounts for intersegment revenue and expenses as if the revenue or expenses were to third parties at current market prices.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Operating revenues and income (loss) before income taxes, minority interest and cumulative effect of a change in accounting principle by segment are as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Operating Revenues				
International and U.S. Floater Contract Drilling Services	\$ 548.5	\$ 609.1	\$1,111.2	\$ 1,232.3
Gulf of Mexico Shallow and Inland Water	55.4	37.1	108.7	81.8
Total Operating Revenues	\$ 603.9	\$ 646.2	\$1,219.9	\$ 1,314.1
Operating income (loss) before general and administrative expense				
International and U.S. Floater Contract Drilling Services	\$ 84.2	\$ 185.9	\$ 228.2	\$ 380.8
Gulf of Mexico Shallow and Inland Water	(49.5)	(30.9)	(78.0)	(63.7)
	34.7	155.0	150.2	317.1
Unallocated general and administrative expense	(14.9)	(16.0)	(28.8)	(35.8)
Unallocated other income (expense), net	(84.9)	(44.7)	(127.6)	(95.2)
Income (Loss) before Income Taxes, Minority Interest and Cumulative Effect of a Change in Accounting Principle	\$ (65.1)	\$ 94.3	\$ (6.2)	\$ 186.1

Total assets by segment were as follows (in millions):

	June 30, 2003	December 31, 2002
International and U.S. Floater Contract Drilling Services	\$10,913.8	\$ 11,804.1
Gulf of Mexico Shallow and Inland Water	792.0	861.0
Total Assets	\$11,705.8	\$ 12,665.1

NOTE 8 - ASSET DISPOSITIONS AND IMPAIRMENT LOSS

Asset Dispositions - In January 2003, in the International and U.S. Floater Contract Drilling Services segment, the Company completed the sale of a jackup rig, the RBF 160, for net proceeds of \$13.0 million and recognized a gain of \$0.2 million, net of tax of \$0.1 million. The proceeds were received in December 2002.

During the six months ended June 30, 2003, the Company settled an insurance claim and sold certain other assets for net proceeds of approximately \$3.2 million and recorded net after-tax gains of \$1.4 million in its International and U.S. Floater Contract Drilling Services segment and \$0.2 million, net of tax of \$0.1 million, in its Gulf of Mexico Shallow and Inland Water segment.

During the six months ended June 30, 2002, in the International and U.S. Floater Contract Drilling Services segment, the Company sold the jackup rig RBF 209 and two semisubmersible rigs, the Transocean 96 and Transocean 97, for net proceeds of \$49.4 million and recognized net losses of \$0.3 million, net of tax of \$0.1 million.

During the six months ended June 30, 2002, the Company settled an insurance claim and sold certain other assets for net proceeds of approximately \$15.6 million and recorded net gains of \$1.0 million, net of tax of \$0.5 million.

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million, in its International and U.S. Floater Contract Drilling Services segment and net losses of \$0.3 million, net of tax of \$0.1 million, in its Gulf of Mexico Shallow and Inland Water segment.

Impairments - During the six months ended June 30, 2003, the Company recorded non-cash impairment charges of \$6.9 million (\$0.02 per diluted share), net of tax of \$3.7 million, in the Gulf of Mexico Shallow and Inland Water segment, which resulted from the Company's decision to take five jackup rigs out of drilling service and market the rigs for alternative uses. The Company does not anticipate returning these rigs to drilling service as it is believed to be cost prohibitive. As a result of this decision, and in accordance with SFAS 144, the carrying value of these assets was adjusted to fair market value. The fair market values of these units as non-drilling rigs were based on third party valuations. The Company also recorded a non-cash impairment charge in this segment of \$0.7 million, net of tax of \$0.3 million, related to its approximately 12 percent investment in Energy Virtual Partners, LP and Energy Virtual Partners Inc., which resulted from the Company's determination that the fair value of the assets of those entities did not support its carrying value, which is included in investments in and advances to joint ventures in the Company's condensed consolidated balance sheets. The impairment was determined and measured based on the remaining book value of the Company's investment and management's assessment of the fair value of that investment at the time the decision was made.

During the six months ended June 30, 2003, the Company recorded an after-tax, non-cash impairment charge of \$4.2 million (\$0.01 per diluted share) related to assets held and used in the International and U.S. Floater Contract Drilling Services segment, which resulted from the Company's decision to remove one mid-water semisubmersible rig and one self-erecting tender rig from drilling service. The impairment was determined and measured based on an estimate of fair value derived from an offer from a potential buyer. The Company also recorded an after-tax, non-cash impairment charge of \$1.0 million in this segment, which resulted from the Company's decision to discontinue its leases on its oil and gas properties. The impairment was determined and measured based on the remaining book value of the assets and management's assessment of the fair value at the time the decision was made.

During the six months ended June 30, 2002, the Company recorded a non-cash impairment charge of \$0.7 million, net of tax of \$0.4 million, related to an asset held for sale in the Gulf of Mexico Shallow and Inland Water segment, which resulted from deterioration in market conditions. The impairment was determined and measured based on an estimate of fair value derived from an offer from a potential buyer.

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NOTE 9 - EARNINGS PER SHARE

The reconciliation of the numerator and denominator used for the computation of basic and diluted earnings per share is as follows (in millions, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
NUMERATOR FOR BASIC AND DILUTED EARNINGS (LOSS) PER SHARE				
Income (Loss) Before Cumulative Effect of a Change in Accounting Principle	\$ (44.5)	\$ 80.0	\$ 2.7	\$ 157.3
Cumulative Effect of a Change in Accounting Principle	-	-	-	(1,363.7)
Net Income (Loss)	<u>\$ (44.5)</u>	<u>\$ 80.0</u>	<u>\$ 2.7</u>	<u>\$ (1,206.4)</u>
DENOMINATOR FOR DILUTED EARNINGS (LOSS) PER SHARE				
Weighted-average shares outstanding for basic earnings per share	319.8	319.1	319.7	319.1
Effect of dilutive securities:				
Employee stock options and unvested stock grants	-	2.7	1.2	2.6
Warrants to purchase ordinary shares	-	2.1	0.6	1.9
Adjusted weighted-average shares and assumed conversions for diluted earnings per share	<u>319.8</u>	<u>323.9</u>	<u>321.5</u>	<u>323.6</u>
BASIC EARNINGS (LOSS) PER SHARE				
Income (Loss) Before Cumulative Effect of a Change in Accounting Principle	\$ (0.14)	\$ 0.25	\$ 0.01	\$ 0.49
Cumulative Effect of a Change in Accounting Principle	-	-	-	(4.27)
Net Income (Loss)	<u>\$ (0.14)</u>	<u>\$ 0.25</u>	<u>\$ 0.01</u>	<u>\$ (3.78)</u>
DILUTED EARNINGS (LOSS) PER SHARE				
Income (Loss) Before Cumulative Effect of a Change in Accounting Principle	\$ (0.14)	\$ 0.25	\$ 0.01	\$ 0.49
Cumulative Effect of a Change in Accounting Principle	-	-	-	(4.22)
Net Income (Loss)	<u>\$ (0.14)</u>	<u>\$ 0.25</u>	<u>\$ 0.01</u>	<u>\$ (3.73)</u>

Ordinary shares subject to issuance pursuant to the conversion features of the convertible debentures are not included in the calculation of adjusted weighted-average shares and assumed conversions for diluted earnings per share because the effect of including those shares is anti-dilutive for all periods presented. Incremental shares related to stock options, unvested stock grants and warrants are not included in the calculation of adjusted weighted-average shares and assumed conversions for diluted earnings per share for the three months ended June 30, 2003, because the effect of including those shares is anti-dilutive for that period.

NOTE 10 - CONTINGENCIES

Legal Proceedings - In March 1997, an action was filed by Mobil Exploration and Producing U.S. Inc. and affiliates, St. Mary Land & Exploration Company and affiliates and Samuel Geary and Associates Inc. against a subsidiary of the Company, Cliffs Drilling, its underwriters at Lloyd's (the "Underwriters") and an insurance broker in the 16th Judicial District Court of St. Mary Parish, Louisiana. The plaintiffs alleged damages in excess of \$50 million in connection with the drilling of a turnkey well in 1995 and 1996. The case was tried before a jury in January and February 2000, and the jury returned a verdict of approximately \$30 million in favor of the plaintiffs for excess drilling costs, loss of insurance proceeds, loss of hydrocarbons, expenses, and interest. The Company and the Underwriters appealed such judgment, and the Louisiana Court of Appeals reduced the amount for which the Company may be responsible to less than \$10 million. The plaintiffs requested that the Supreme Court of Louisiana consider the matter and reinstate the original verdict. The Company and the Underwriters also appealed to the Supreme Court of Louisiana

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requesting that the Court reduce the verdict or, in the case of the Underwriters, eliminate any liability for the verdict. Prior to the Supreme Court of Louisiana ruling on these petitions, the Company settled with the St. Mary group of plaintiffs and the State of Louisiana. Subsequently, the Supreme Court of Louisiana denied the applications of all remaining plaintiffs. The Company settled with all remaining plaintiffs in the second quarter of 2003. The Company believes that the amounts, apart from a small deductible, paid in the settlement are covered by relevant primary and excess liability insurance policies. However, the insurers and the Underwriters have denied all coverage. The Company has instituted litigation against those insurers and Underwriters to enforce its rights under the relevant policies. One group of issuers has asserted a counterclaim against the Company claiming that they issued the policy as a result of misrepresentation. The settlements did not have a material adverse effect on the Company's business or consolidated financial position. The Company does not expect the ultimate outcome of the case to have a material adverse effect on its business or consolidated financial position.

The Company has certain other actions or claims pending that have been previously discussed and reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and the Company's other reports filed with the Securities and Exchange Commission. There have been no material developments in these previously reported matters. The Company and its subsidiaries are involved in a number of other lawsuits, all of which have arisen in the ordinary course of the Company's business. The Company does not believe that ultimate liability, if any, resulting from any such other pending litigation will have a material adverse effect on its business or consolidated financial position.

Letters of Credit and Surety Bonds - The Company had letters of credit outstanding at June 30, 2003 totaling \$78.7 million. These letters of credit guarantee various contract bidding and insurance activities under various lines provided by several banks.

As is customary in the contract drilling business, the Company also has various surety bonds totaling \$159.6 million in place that secure customs obligations relating to the importation of its rigs and certain performance and other obligations.

NOTE 11 - RELATED PARTY TRANSACTIONS

Delta Towing - In January 2003, Delta Towing failed to make its scheduled quarterly interest payment of \$1.7 million on the notes receivable. The Company signed a 90-day waiver of the terms requiring payment of interest. In April 2003, Delta Towing again failed to make its interest payment of \$1.7 million originally due January 2003 after expiration of the 90-day waiver. In April 2003, Delta Towing failed to make another scheduled quarterly interest payment of \$1.6 million. During the six months ended June 30, 2003, the Company received partial interest payments of approximately \$0.6 million. At June 30, 2003, the Company had interest receivable from Delta Towing of \$4.3 million. As a result of the Company's continued evaluation of the collectibility of the Delta Towing notes, the Company recorded an impairment on the notes receivable of \$13.8 million (\$0.04 per diluted share), net of tax of \$7.5 million, in the second quarter of 2003 as an allowance for credit losses. The Company based the impairment on Delta Towing's discounted projected cash flows over the term of the notes, which deteriorated in the second quarter of 2003 as a result of the continued decline in Delta Towing's business outlook. The amount of the notes receivable outstanding prior to the impairment was \$82.8 million. At June 30, 2003, the carrying value of the notes receivable, net of the related allowance for credit losses, was \$54.8 million. The Company will establish a reserve for future interest income earned and recorded on the notes receivable and will apply cash payments to interest receivable currently outstanding and then to interest income for which a reserve has been established.

DDII LLC is the lessee in a synthetic lease financing facility entered into in connection with the construction of the Deepwater Frontier. In May 2003, WestLB AG, one of the lenders in the synthetic lease financing facility to which DDII LLC is the lessee, assigned its \$46.1 million remaining promissory note receivable to the Company in exchange for cash of \$46.1 million. As a result of this assignment, the Company assumed all the rights and obligations

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of WestLB AG. The balance of the note receivable was \$45.3 million at June 30, 2003 and is included in other current assets in the Company's condensed consolidated balance sheets.

Also in May 2003, but subsequent to the WestLB AG assignment, the Company purchased ConocoPhillips' 40 percent interest in DDII LLC for approximately \$5.0 million. As a result of this purchase, the Company consolidated DDII LLC in the second quarter of 2003. In addition, the Company acquired certain drilling and other contracts from ConocoPhillips for approximately \$9 million in cash.

NOTE 12 - RESTRUCTURING CHARGES

In September 2002, the Company committed to a restructuring plan to close its engineering office in Montrouge, France. The Company established a liability of \$2.8 million for the estimated severance-related costs associated with the involuntary termination of 16 employees pursuant to this plan. The charge was reported as operating and maintenance expense in the International and U.S. Floater Contract Drilling Services segment in the Company's condensed consolidated statements of operations. Through June 30, 2003, \$2.1 million had been paid representing full or partial payments to all 16 employees whose positions were eliminated as a result of this plan. The Company released the expected surplus liability of \$0.3 million to operating and maintenance expense in June 2003.

In September 2002, the Company committed to a restructuring plan for a staff reduction in Norway as a result of a decline in activity in that region. The Company established a liability of \$1.2 million for the estimated severance-related costs associated with the involuntary termination of eight employees pursuant to this plan. The charge was reported as operating and maintenance expense in the International and U.S. Floater Contract Drilling Services segment in the Company's condensed consolidated statements of operations. Through June 30, 2003, \$0.8 million had been paid representing full or partial payments to eight employees whose positions are being eliminated as a result of this plan. The Company anticipates that substantially all amounts will be paid by the end of the first quarter of 2005.

In September 2002, the Company committed to a restructuring plan to consolidate certain functions and offices utilized in its Gulf of Mexico Shallow and Inland Water segment. The plan resulted in the closure of an administrative office and warehouse in Louisiana and relocation of most of the operations and administrative functions previously conducted at that location. The Company established a liability of \$1.2 million for the estimated severance-related costs associated with the involuntary termination of 57 employees pursuant to this plan. The charge was reported as operating and maintenance expense in the Company's condensed consolidated statements of operations. Through June 30, 2003, substantially all of the \$1.2 million previously established liability was paid to 50 employees whose employment was terminated as a result of this plan.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

OVERVIEW

Transocean Inc. (together with its subsidiaries and predecessors, unless the context requires otherwise, the "Company," "Transocean," "we," "us" or "our") is a leading international provider of offshore and inland marine contract drilling services for oil and gas wells. As of July 31, 2003, we owned, had partial ownership interests in or operated more than 160 mobile offshore and barge drilling units. As of this date, our fleet included 13 fifth-generation semisubmersibles and drillships ("floaters"), 15 other deepwater floaters, 31 mid-water floaters and 50 jackup drilling rigs. Our fleet also included 34 drilling barges, four tenders, three submersible drilling rigs, two platform drilling rigs, a mobile offshore production unit and a land drilling rig, as well as nine land rigs and three lake barges in Venezuela. We contract our drilling rigs, related equipment and work crews primarily on a dayrate basis to drill oil and gas wells. We also provide additional services, including management of third-party well service activities.

We have reclassified our floaters into a deepwater category, consisting of our fifth-generation floaters and other deepwater floaters, and a mid-water category. We have also reviewed the use of the term "deepwater" in connection with our fleet. The term as used in the drilling industry to denote a particular segment of the market varies and continues to evolve with technological improvements. We generally view the deepwater market sector as that which begins in water depths of approximately 4,500 feet. Within our "deepwater" category, we consider our "fifth-generation" rigs to be the semisubmersibles Deepwater Horizon, Cajun Express, Deepwater Nautilus, Sedco Energy and Sedco Express and the drillships Deepwater Discovery, Deepwater Expedition, Deepwater Frontier, Deepwater Millennium, Deepwater Pathfinder, Discoverer Deep Seas, Discoverer Enterprise, and Discoverer Spirit. The floaters comprising the "other deepwater" category are those semisubmersible rigs and drillships which have a water depth capacity of at least 4,500 feet. The mid-water category is comprised of those floaters with a water depth capacity of less than 4,500 feet. We have reclassified these rigs to better reflect how we view, and how we believe our investors and the industry view, our fleet.

Our operations are aggregated into two reportable segments: (i) International and U.S. Floater Contract Drilling Services and (ii) Gulf of Mexico Shallow and Inland Water. The International and U.S. Floater Contract Drilling Services segment consists of floaters, non-U.S. jackups, other mobile offshore drilling units and other assets used in support of offshore drilling activities and offshore support services. The Gulf of Mexico Shallow and Inland Water segment consists of jackup and submersible drilling rigs located in the U. S. Gulf of Mexico and Trinidad and U.S. inland drilling barges, as well as land and lake barge drilling units located in Venezuela. We provide services with different types of drilling equipment in several geographic regions. The location of our rigs and the allocation of resources to build or upgrade rigs is determined by the activities and needs of our clients.

As a result of the implementation of Emerging Issues Task Force ("EITF") Issue No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, costs we incur that are charged to our clients on a reimbursable basis are being recognized as operating and maintenance expense beginning in 2003. In addition, the amounts billed to our clients associated with these reimbursable costs are being recognized as operating revenue. We expect the increase in operating revenues and operating and maintenance expense resulting from this implementation to be between \$90 million and \$110 million for the year 2003. This change in the accounting treatment for client reimbursables will have no effect on our results of operations or consolidated financial position. We previously recorded these charges and related reimbursements on a net basis in operating and maintenance expense. Prior period amounts have not been reclassified, as the amounts were not material.

In July 2002, we announced plans to pursue a divestiture of our Gulf of Mexico Shallow and Inland Water business. In December 2002, our subsidiary, TODCO, formerly known as R&B Falcon Corporation, filed a registration statement with the Securities and Exchange Commission ("SEC") relating to our previously announced initial public offering of our Gulf of Mexico Shallow and Inland Water business. We expect to separate this business from Transocean and establish TODCO as a publicly traded company. We have completed our reorganization of TODCO as

the entity that owns that business in preparation of the offering. We expect to complete the initial public offering when market conditions warrant, subject to various factors. Given the current general uncertainty in the equity and U.S. natural gas drilling markets, we are unsure when the transaction could be completed on terms acceptable to us. We do not expect to sell all of our interest in TODCO in the initial public offering. Until we complete the initial public offering transaction, we will continue to operate and account for TODCO as our Gulf of Mexico Shallow and Inland Water segment.

In April 2003, our deepwater drillship Peregrine I temporarily suspended drilling operations as a result of an electrical fire requiring repairs at a shipyard. The rig resumed operations in early July 2003. See "-Operating Results."

In April 2003, we announced that drilling operations had ceased on four of our mobile offshore drilling units located offshore Nigeria due to a strike by local members of the National Union of Petroleum and Natural Gas Workers on the semisubmersible rigs M.G. Hulme, Jr. and Sedco 709 and the jackup rigs Trident VI and Trident VIII. All rigs have since returned to operations. We continue negotiations to resolve the issues relating to the labor strike in Nigeria.

In May 2003, we purchased ConocoPhillips' 40 percent interest in Deepwater Drilling II L.L.C. ("DDII LLC"). DDII LLC is the lessee in a synthetic lease financing facility entered into in connection with the construction of the Deepwater Frontier. As a result of this purchase, we consolidated DDII LLC in the second quarter of 2003. See "-Special Purpose Entities, Sale/Leaseback Transaction and Related Party Transactions."

In May 2003, we announced that a drilling riser had separated on our deepwater drillship Discoverer Enterprise and that the rig had temporarily suspended drilling operations for our customer. The rig has resumed operations but we are in discussion with our customer regarding the appropriate dayrate treatment. See "-Operating Results."

In June 2003, we incurred a loss as a result of a well blowout and fire aboard our inland barge Rig 62. Our insurance coverage has a \$12.5 million aggregate deductible for this incident. See "-Operating Results."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements. This discussion should be read in conjunction with disclosures included in the notes to our condensed consolidated financial statements related to estimates, contingencies and new accounting pronouncements. Significant accounting policies are discussed in Note 2 to our condensed consolidated financial statements included elsewhere and in Note 2 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2002. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, materials and supplies obsolescence, investments, property and equipment, intangible assets and goodwill, income taxes, financing operations, workers' insurance, pensions and other post-retirement and employment benefits and contingent liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following are our most critical accounting policies. These policies require significant judgments and estimates used in the preparation of our consolidated financial statements. Management has discussed each of these critical accounting policies and estimates with the Audit Committee of the Board of Directors.

Allowance for doubtful accounts-We establish reserves for doubtful accounts on a case-by-case basis when we believe the required payment of specific amounts owed to us is unlikely to occur. We derive a majority of our revenue from services to international oil companies and government-owned or government-controlled oil companies. Our

receivables are concentrated in certain oil-producing countries. We generally do not require collateral or other security to support client receivables. If the financial condition of our clients was to deteriorate or their access to freely convertible currency was restricted, resulting in impairment of their ability to make the required payments, additional allowances may be required.

Valuation allowance for deferred tax assets-We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which we have already recorded the tax benefit in our income statement. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, should we determine that we would more likely than not be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the valuation allowance would increase income in the period such determination was made. Likewise, should we determine that we would more likely than not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the valuation allowance would reduce income in the period such determination was made.

Goodwill impairment-We perform a test for impairment of our goodwill annually as of October 1 as prescribed by Statement of Financial Accounting Standards ("SFAS") 142, Goodwill and Other Intangibles. Because our business is cyclical in nature, goodwill could be significantly impaired depending on when the assessment is performed in the business cycle. The fair value of our reporting units is based on a blend of estimated discounted cash flows, publicly traded company multiples and acquisition multiples. Estimated discounted cash flows are based on projected utilization and dayrates. Publicly traded company multiples and acquisition multiples are derived from information on traded shares and analysis of recent acquisitions in the marketplace, respectively, for companies with operations similar to ours. Changes in the assumptions used in the fair value calculation could result in an estimated reporting unit fair value that is below the carrying value, which may give rise to an impairment of goodwill. In addition to the annual review, we also test for impairment should an event occur or circumstances change that may indicate a reduction in the fair value of a reporting unit below its carrying value. See Note 2 to our condensed consolidated financial statements.

Property and equipment-Our property and equipment represents more than 60 percent of our total assets. We determine the carrying value of these assets based on our property and equipment accounting policies, which incorporate our estimates, assumptions, and judgments relative to capitalized costs, useful lives and salvage values of our rigs. We review our property and equipment for impairment when events or changes in circumstances indicate that the carrying value of such assets may be impaired or when reclassifications are made between property and equipment and assets held for sale as prescribed by SFAS 144, Accounting for Impairment or Disposal of Long-Lived Assets. Asset impairment evaluations are based on estimated undiscounted cash flows for the assets being evaluated. Our estimates, assumptions, and judgments used in the application of our property and equipment accounting policies reflect both historical experience and expectations regarding future industry conditions and operations. Using different estimates, assumptions and judgments, especially those involving the useful lives of our rigs and expectations regarding future industry conditions and operations, could result in different carrying values of assets and results of operations.

Pension and Other Postretirement Benefits-Our defined benefit pension and other postretirement benefit (retiree life insurance and medical benefits) obligations and the related benefit costs are accounted for in accordance with SFAS 87, Employers' Accounting for Pensions, and SFAS 106, Employers' Accounting for Postretirement Benefits Other than Pensions. Pension and postretirement costs and obligations are actuarially determined and are affected by assumptions including expected return on plan assets, discount rates, compensation increases, employee turnover rates and health care cost trend rates. We evaluate our assumptions periodically and make adjustments to these assumptions and the recorded liabilities as necessary.

Two of the most critical assumptions are the expected long-term rate of return on plan assets and the assumed discount rate. We evaluate our assumptions regarding the estimated long-term rate of return on plan assets based on historical experience and future expectations on investment returns, which are calculated by our third party investment advisor utilizing the asset allocation classes held by the plan's portfolios. We utilize the Moody's Aa long-term corporate bond yield as a basis for determining the discount rate for a majority of our plans. Changes in these and other

assumptions used in the actuarial computations could impact our projected benefit obligations, pension liabilities, pension expense and other comprehensive income. We base our determination of pension expense on a market-related valuation of assets that reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the market-related value of assets.

Contingent liabilities-We establish reserves for estimated loss contingencies when we believe a loss is probable and the amount of the loss can be reasonably estimated. Revisions to contingent liabilities are reflected in income in the period in which different facts or information become known or circumstances change that affect our previous assumptions with respect to the likelihood or amount of loss. Reserves for contingent liabilities are based upon our assumptions and estimates regarding the probable outcome of the matter. Should the outcome differ from our assumptions and estimates, revisions to the estimated reserves for contingent liabilities would be required.

OPERATING RESULTS

QUARTER ENDED JUNE 30, 2003 COMPARED TO QUARTER ENDED JUNE 30, 2002

Our revenues for the quarter ended June 30, 2003 decreased by \$42.3 million and our operating and maintenance expense increased by \$60.9 million compared to the quarter ended June 30, 2002. Our overall average dayrate decreased from \$78,000 for the quarter ended June 30, 2002 to \$65,300 for the quarter ended June 30, 2003, while utilization remained flat at 56 percent for each of these periods. The decreases in our contract drilling revenue and average dayrates were mainly attributable to the decline in overall market conditions. In addition, our revenues, utilization and operating and maintenance expense were negatively impacted by the labor strike in Nigeria, the riser separation incident on the drillship Discoverer Enterprise, the well control incident on inland barge Rig 62 and the electrical fire on the Peregrine I. Following is a detailed analysis of our International and U.S. Floater Contract Drilling Services segment and Gulf of Mexico Shallow and Inland Water segment operating results, as well as an analysis of income and expense categories that we have not allocated to our two segments.

INTERNATIONAL AND U.S. FLOATER CONTRACT DRILLING SERVICES SEGMENT

	Three Months Ended June 30,		Change	% Change
	2003	2002		
(In millions, except day amounts and percentages)				
Operating days (a)	5,887.1	6,487.4	(600.3)	(9.3)%
Utilization (a) (b) (d)	67.9%	78.4%	N/A	(13.4)%
Average dayrate (a) (c) (d)	\$ 88,900	\$ 93,500	\$ (4,600)	(4.9)%
Contract drilling revenues	\$ 525.5	\$ 609.1	\$ (83.6)	(13.7)%
Client reimbursable revenues	23.0	-	23.0	N/M
Operating and maintenance	548.5	609.1	(60.6)	(9.9)%
Depreciation	355.9	320.1	35.8	11.2%
Impairment loss on long-lived assets	104.4	101.4	3.0	3.0%
(Gain) loss from sale of assets, net	4.2	-	4.2	N/M
	(0.2)	1.7	(1.9)	N/M
Operating income before general and administrative expense	\$ 84.2	\$ 185.9	\$ (101.7)	(54.7)%

"N/A" means not applicable

"N/M" means not meaningful

(a) Applicable to all rigs.

- (b) Utilization is defined as the total actual number of revenue earning days as a percentage of the total number of calendar days in the period.
- (c) Average dayrate is defined as contract drilling revenue earned per revenue earning day.
- (d) Effective January 1, 2003, the calculation of average dayrates and utilization has changed to include all rigs based on contract drilling revenues. Prior periods have been restated to reflect the change.

Lower average dayrates and utilization resulted in a decrease in this segment's contract drilling revenues of approximately \$68.0 million, excluding the impact of the items discussed separately below. Contract drilling revenues were also adversely impacted by approximately \$22.0 million due to the labor strike in Nigeria, the riser separation incident on the Discoverer Enterprise and the electrical fire on the Peregrine I. Decreases also resulted from the sale of a rig and a leased rig returned to its owner during or subsequent to the second quarter of 2002 (\$2.8 million). These decreases were partially offset by increases in contract drilling revenues from a rig transferred into this segment from the Gulf of Mexico Shallow and Inland Water segment during the second quarter of 2002 (\$4.7 million) and from the Deepwater Frontier (\$4.8 million), as a result of the consolidation of DDII LLC. See "-Overview."

Operating revenues for the three months ended June 30, 2003 included \$23.0 million related to costs incurred and billed to clients on a reimbursable basis. See "-Overview."

A large portion of our operating and maintenance expense consists of employee-related costs and is fixed or only semi-variable. Accordingly, operating and maintenance expense does not vary in direct proportion to activity or dayrates.

The increase in this segment's operating and maintenance expenses was primarily due to higher shipyard and maintenance expenses, including \$5.2 million in costs associated with the riser separation incident on the Discoverer Enterprise. Rig hire expense increased by \$2.2 million resulting from the consolidation of DDII LLC, which leases the Deepwater Frontier. We also incurred additional expense in the second quarter of 2003 resulting from the transfer of a jackup rig into this segment from the Gulf of Mexico Shallow and Inland Water segment during the second quarter of 2002 (\$2.7 million), costs incurred related to the labor strike in Nigeria (\$2.6 million), costs incurred related to the electrical fire on the Peregrine I (\$2.2 million) and an increase in allowance for doubtful accounts related to two client receivables (\$4.5 million). In addition, expenses increased due to additional costs incurred and recognized as operating and maintenance expense relating to client reimbursable expenses as a result of implementing EITF 99-19 in 2003 (see "-Overview"). Partially offsetting these increases were decreased operating and maintenance expenses resulting from rigs sold or returned to owner during and subsequent to the second quarter of 2002 (\$2.4 million). We also recognized a \$4.1 million release of a litigation reserve in the second quarter of 2003 relating to the settlement of a dispute.

The increase in this segment's depreciation expense resulted primarily from the transfer of a rig from the Gulf of Mexico Shallow and Inland Water segment into this segment and depreciation expense related to assets reclassified from held for sale to our active fleet because they no longer met the criteria for assets held for sale under SFAS 144 during and subsequent to the three months ended June 30, 2002. These increases were partially offset by lower depreciation expense following the sale of a rig classified as held and used during the second quarter of 2002.

During the three months ended June 30, 2003, we recorded non-cash impairment charges of \$4.2 million related to assets held and used in this segment, which resulted from our decision to remove one mid-water semisubmersible rig and one self-erecting tender rig from drilling service. The impairment was determined and measured based on an estimate of fair value derived from an offer from a potential buyer.

	Three Months Ended June 30,			
	2003	2002	Change	% Change
	(In millions, except day amounts and percentages)			
Operating days (a)	2,918.7	1,765.7	1,153.0	65.3%
Utilization (a) (b) (d)	42.2%	27.0%	N/A	56.3%
Average dayrate (a) (c) (d)	\$ 17,500	\$ 21,000	\$ (3,500)	(16.7)%
Contract drilling revenues	\$ 51.1	\$ 37.1	\$ 14.0	37.7%
Client reimbursable revenues	4.3	-	4.3	N/M
	55.4	37.1	18.3	49.3%
Operating and maintenance	70.6	45.5	25.1	55.2%
Depreciation	23.1	22.9	0.2	0.9%
Impairment loss on long-lived assets	11.6	-	11.6	N/M
Gain from sale of assets, net	(0.4)	(0.4)	-	N/M
Operating loss before general and administrative expense	\$ (49.5)	\$ (30.9)	\$ (18.6)	(60.2)%

"N/A" means not applicable

"N/M" means not meaningful

(a) Applicable to all rigs.

(b) Utilization is defined as the total actual number of revenue earning days as a percentage of the total number of calendar days in the period.

(c) Average dayrate is defined as contract drilling revenue earned per revenue earning day.

(d) Effective January 1, 2003, the calculation of average dayrates and utilization was changed to include all rigs based on contract drilling revenues. Prior periods have been restated to reflect the change.

Higher utilization resulted in an increase in this segment's contract drilling revenues of \$25.7 million, partially offset by decreased average dayrates (\$10.4 million) and the transfer of a jackup rig from this segment into the International and U.S. Floater Contract Drilling Services segment during the second quarter of 2002 (\$1.4 million).

Operating revenues for the three months ended June 30, 2003 included \$4.3 million related to costs incurred and billed to clients on a reimbursable basis. See "-Overview."

A large portion of our operating and maintenance expense consists of employee-related costs and is fixed or only semi-variable. Accordingly, operating and maintenance expense does not vary in direct proportion to activity or dayrates.

The increase in this segment's operating and maintenance expenses was primarily due to costs associated with the well control incident on inland barge Rig 62 (\$7.2 million), an increase in insurance expense (\$2.4 million) and an increase in activity (\$11.9 million). In addition, operating and maintenance expenses increased due to costs incurred and recognized as operating and maintenance expense relating to client reimbursable expenses as a result of implementing EITF 99-19 during 2003 (see "-Overview"). Partially offsetting the above increases was a decrease resulting from the transfer of a jackup rig from this segment into the International and U.S. Floater Contract Drilling Services segment in the second quarter of 2002 (\$1.1 million).

During the three months ended June 30, 2003, we recorded a non-cash impairment charge of \$10.6 million in this segment, which resulted from our decision to take five jackup rigs out of drilling service and market the rigs for alternative uses. We do not anticipate returning these rigs to drilling service, as we believe it would be cost prohibitive.

As a result of this decision, and in accordance with SFAS 144, the carrying value of these assets was adjusted to fair market value. The fair market values of these units as non-drilling rigs were based on third party valuations. During the three months ended June 30, 2003, we also recorded a non-cash impairment charge of \$1.0 million in this segment, which resulted from our determination that the fair value of the assets of an entity in which we have an investment did not support our carrying value. The impairment was determined and measured based on the remaining book value of our investment and our assessment of the fair value of that investment at the time the decision was made.

TOTAL COMPANY RESULTS OF OPERATIONS

	Three Months Ended June 30,			
	2003	2002	Change	% Change
	----- (In millions, except % change) -----			
General and Administrative Expense	\$ 14.9	\$ 16.0	\$ (1.1)	(6.9)%
Other (Income) Expense, net				
Equity in earnings of joint ventures	(1.8)	(2.5)	0.7	(28.0)%
Interest income	(5.8)	(5.7)	(0.1)	1.8%
Interest expense	52.8	52.5	0.3	(0.6)%
Loss on retirement of debt	15.7	-	15.7	N/M
Loss on impairment of note receivable from related party	21.3	-	21.3	N/M
Other, net	2.7	0.4	2.3	N/M
Income Tax Expense (Benefit)	(20.8)	13.9	(34.7)	N/M

"N/M" means not meaningful

The decrease in general and administrative expense was attributable to decreased personnel expenses of \$1.2 million primarily due to lower pension expense in 2003 and an adjustment to cash surrender value of executive life insurance.

The decrease in equity in earnings of joint ventures was primarily related to our 25 percent share of losses from Delta Towing Holdings, LLC ("Delta Towing"), which included our share of a \$2.5 million non-cash impairment charge on the carrying value of idle equipment recorded by the joint venture. Offsetting the decrease was our 60 percent share of earnings of DDII LLC, which leases the Deepwater Frontier. The rig experienced increased utilization and average dayrates during the two month period ended May 31, 2003, at which time we completed the buyout of ConocoPhillips' 40 percent interest in the joint venture, compared to the three months ended June 30, 2002. The increase in interest income was primarily due to interest earned on higher average cash balances for the three months ended June 30, 2003 compared to the same period in 2002. The increase in interest expense was primarily due to the termination of our fixed to floating interest rate swaps in the first quarter of 2003, which resulted in an increase of \$13.5 million, partially offset by reductions in interest expense of \$6.5 million related to the recognition of the gain from the termination of the interest rate swaps (see "-Derivative Instruments"). Debt repaid or retired during and subsequent to the three months ended June 30, 2002 resulted in an additional \$6.8 million reduction in interest expense.

During the three months ended June 30, 2003, we recognized a \$15.7 million loss on early retirements of debt as more fully described in Note 3 to our condensed consolidated financial statements.

During the three months ended June 30, 2003, we recorded a \$21.3 million impairment of the notes receivable due from Delta Towing as more fully described in Note 11 to our condensed consolidated financial statements.

We recognized a \$2.3 million loss in other, net relating to the revaluation of a local currency into functional U.S dollars for the three months ended June 30, 2003 (see "-Item 3. Quantitative and Qualitative Disclosures about Market Risk-Foreign Exchange Risk").

We operate internationally and provide for income taxes based on the tax laws and rates in the countries in which we operate and earn income. There is no expected relationship between the provision for income taxes and income before income taxes. The three months ended June 30, 2003 included a tax benefit of \$14.6 million attributable to the favorable resolution of a non-U.S. income tax liability and income tax benefits resulting from non-cash impairments and loss on debt retirements. As a result of the deterioration in 2003 profitability, our annual effective tax rate is now estimated to be approximately 38 percent during 2003 on earnings before asset impairments, notes receivable impairment and loss on debt retirements. Due to this change in estimate from approximately 20 percent at March 31, 2003, earnings for the three months ended June 30, 2003 were reduced by \$10.7 million as a result of applying the adjusted estimated annual effective tax rate to the three months ended March 31, 2003.

SIX MONTHS ENDED JUNE 30, 2003 COMPARED TO SIX MONTHS ENDED JUNE 30, 2002

Our revenues for the six months ended June 30, 2003 decreased by \$94.2 million and our operating and maintenance expense increased by \$54.0 million compared to the six months ended June 30, 2002. In addition, our overall average dayrate and utilization decreased from \$75,100 and 59 percent, respectively, for the six months ended June 30, 2002 to \$67,100 and 56 percent for the six months ended June 30, 2003. The decreases in our revenue and average dayrates were mainly attributable to the decline in overall market conditions. In addition, our contract drilling revenues, utilization and operating and maintenance expense were negatively impacted by the labor strike in Nigeria, the riser separation incident on the drillship Discoverer Enterprise, the well control incident on inland barge Rig 62 and the electrical fire on the Peregrine I. Following is a detailed analysis of our International and U.S. Floater Contract Drilling Services segment and Gulf of Mexico Shallow and Inland Water segment operating results, as well as an analysis of income and expense categories that we have not allocated to our two segments.

	Six Months Ended June 30,		Change	% Change
	2003	2002		
(In millions, except day amounts and percentages)				
Operating days (a)	11,769.4	13,371.3	(1,601.9)	(12.0)%
Utilization (a) (b) (d)	68.3%	80.2%	N/A	(14.8)%
Average dayrate (a) (c) (d)	\$ 90,300	\$ 91,800	\$ (1,500)	(1.6)%
Contract drilling revenues	\$ 1,066.6	\$ 1,232.3	\$ (165.7)	(13.4)%
Client reimbursable revenues	44.6	-	44.6	N/M
	1,111.2	1,232.3	(121.1)	(9.8)%
Operating and maintenance	671.4	648.8	22.6	3.5%
Depreciation	208.0	203.7	4.3	2.1%
Impairment loss on long-lived assets	5.2	-	5.2	N/M
Gain from sale of assets, net	(1.6)	(1.0)	(0.6)	60.0%
Operating income before general and administrative expense	\$ 228.2	\$ 380.8	\$ (152.6)	(40.1)%

"N/A" means not applicable

"N/M" means not meaningful

(a) Applicable to all rigs.

(b) Utilization is defined as the total actual number of revenue earning days as a percentage of the total number of calendar days in the period.

(c) Average dayrate is defined as contract drilling revenue earned per revenue earning day.

- (d) Effective January 1, 2003, the calculation of average dayrates and utilization has changed to include all rigs based on contract drilling revenues. Prior periods have been restated to reflect the change.

Lower average dayrates and utilization resulted in a decrease in this segment's contract drilling revenues of approximately \$144.0 million, excluding the impact of the items discussed separately below. Contract drilling revenues were also adversely impacted by approximately \$22.0 million due to the labor strike in Nigeria, the riser separation incident on the Discoverer Enterprise and the electrical fire on the Peregrine I. Additional decreases resulted from the sale of rigs (\$7.9 million), the return of a leased rig to its owner (\$2.8 million) and the transfer of a jackup rig from this segment to the Gulf of Mexico Shallow and Inland Water segment (\$2.1 million) during 2002. These decreases were partially offset by increases in contract drilling revenue from a rig transferred into this segment from the Gulf of Mexico Shallow and Inland Water segment during the second quarter of 2002 (\$9.3 million) and from the Deepwater Frontier (\$4.2 million), as a result of the consolidation of DDII LLC. See "-Overview."

Operating revenues for the six months ended June 30, 2003 included \$44.6 million related to costs incurred and billed to clients on a reimbursable basis. See "-Overview."

A large portion of our operating and maintenance expense consists of employee-related costs and is fixed or only semi-variable. Accordingly, operating and maintenance expense does not vary in direct proportion to activity or dayrates.

The increase in this segment's operating and maintenance expense was primarily due to higher shipyard and maintenance expenses, including \$5.2 million in costs associated with the riser separation incident on the Discoverer Enterprise. Rig hire expenses increased by \$2.2 million resulting from the consolidation of DDII LLC, which leases the Deepwater Frontier. We also incurred additional expense in 2003 resulting from the transfer of a jackup rig into this segment from the Gulf of Mexico Shallow and Inland Water segment during the second quarter of 2002 (\$5.3 million), costs incurred related to the labor strike in Nigeria (\$2.6 million), costs incurred related to the electrical fire on the Peregrine I (\$2.2 million) and an increase in allowance for doubtful accounts related to two client receivables (\$4.5 million). In addition, expenses increased due to additional costs incurred and recognized as operating and maintenance expense relating to client reimbursable expenses as a result of implementing EITF 99-19 in 2003 (see "-Overview"). Partially offsetting these increases were decreased operating and maintenance expenses resulting from rigs sold (\$6.2 million) or returned to owner (\$2.6 million) during and subsequent to the six months ended June 30, 2002. We also recognized a \$4.1 million release of a litigation reserve in the second quarter of 2003 relating to the settlement of a dispute and a \$2.6 million expense reduction from the settlement of an insurance claim during the six months ended June 30, 2003.

The increase in this segment's depreciation expense resulted primarily from the transfer of a rig from the Gulf of Mexico Shallow and Inland Water segment into this segment and depreciation expense related to assets reclassified from held for sale to our active fleet because they no longer met the criteria for assets held for sale under SFAS 144 during and subsequent to the six months ended June 30, 2002. These increases were partially offset by lower depreciation expense following the sale of rigs classified as held and used during and subsequent to the six months ended June 30, 2002.

During the six months ended June 30, 2003, we recorded a non-cash impairment charge of \$4.2 million related to assets held and used in this segment, which resulted from our decision to remove one mid-water semisubmersible rig and one self-erecting tender rig from drilling service. The impairment was determined and measured based on an estimate of fair value derived from an offer from a potential buyer. During the six months ended June 30, 2003, we also recorded a non-cash impairment charge of \$1.0 million in this segment, which resulted from our decision to discontinue the leases on our oil and gas properties. The impairment was determined and measured based on the carrying value of the leases at the time the decision was made.

GULF OF MEXICO SHALLOW AND INLAND WATER SEGMENT

	Six Months Ended June 30,			
	2003	2002	Change	% Change
(In millions, except day amounts and percentages)				
Operating days (a)	5,540.7	4,047.0	1,493.7	36.9%
Utilization (a) (b) (d)	40.3%	30.9%	N/A	30.4%
Average dayrate (a) (c) (d)	\$ 18,000	\$ 20,200	(2,200)	(10.9)%
Contract drilling revenues	\$ 99.6	\$ 81.8	17.8	21.8%
Client reimbursable revenues	9.1	-	9.1	N/M
	108.7	81.8	26.9	32.9%
Operating and maintenance	129.2	97.8	31.4	32.1%
Depreciation	46.3	46.2	0.1	0.2%
Impairment loss on long-lived assets	11.6	1.1	10.5	N/M
(Gain) loss from sale of assets, net	(0.4)	0.4	(0.8)	N/M
Operating loss before general and administrative expense	\$ (78.0)	\$ (63.7)	(14.3)	(22.4)%

"N/A" means not applicable

"N/M" means not meaningful

(a) Applicable to all rigs.

(b) Utilization is defined as the total actual number of revenue earning days as a percentage of the total number of calendar days in the period.

(c) Average dayrate is defined as contract drilling revenue earned per revenue earning day.

(d) Effective January 1, 2003, the calculation of average dayrates and utilization was changed to include all rigs based on contract drilling revenues. Prior periods have been restated to reflect the change.

Higher utilization resulted in an increase in this segment's contract drilling revenue of \$34.5 million, partially offset by decreased average dayrates (\$14.7 million) and the transfer of a jackup rig from this segment into the International and U.S. Floater Contract Drilling Services segment and rigs sold during the six months ended June 30, 2002 (\$2.0 million).

Operating revenues for the six months ended June 30, 2003 included \$9.1 million related to costs incurred and billed to clients on a reimbursable basis. See "-Overview."

A large portion of our operating and maintenance expense consists of employee-related costs and is fixed or only semi-variable. Accordingly, operating and maintenance expense does not vary in direct proportion to activity or dayrates.

The increase in this segment's operating and maintenance expenses was due primarily to costs associated with the well control incident on inland barge Rig 62 (\$7.2 million) and an increase in activity of approximately \$15.0 million. In addition, operating and maintenance expenses increased due to costs incurred and recognized as operating and maintenance expense relating to client reimbursable expenses as a result of implementing EITF 99-19 during the six months ended June 30, 2003 (see "-Overview"). Operating and maintenance expenses also increased due to an insurance claim provision (\$2.5 million). These increases were partially offset by the release of a provision for doubtful accounts (\$1.8 million) during the first six months of 2003 upon collection of amounts previously reserved and by lower expenses resulting from the transfer of a jackup rig from this segment into the International and U.S. Floater Contract Drilling Services segment (\$1.9 million) during the second quarter of 2002.

During the six months ended June 30, 2003, we recorded a non-cash impairment charge of \$10.6 million in this segment, which resulted from our decision to take five jackup rigs out of drilling service and market the rigs for alternative uses. We do not anticipate returning these rigs to drilling service as we believe it would be cost prohibitive. As a result of this decision, and in accordance with SFAS 144, the carrying value of these assets was adjusted to fair market value. The fair market value of these units as non-drilling rigs were based on third party valuations. During the six months ended June 30, 2003, we also recorded a non-cash impairment charge of \$1.0 million in this segment, which resulted from our determination that the assets of an entity in which we have an investment did not support our carrying value. The impairment was determined and measured based on the remaining book value of our investment and our assessment of the fair value of that investment at the time the decision was made. During the six months ended June 30, 2002, we recorded a non-cash impairment charge of \$1.1 million related to an asset held for sale in this segment, which resulted from deterioration in market conditions. The impairment was determined and measured based on an estimate of fair value derived from an offer from a potential buyer.

TOTAL COMPANY RESULTS OF OPERATIONS

	Six Months Ended June 30,		Change	% Change
	2003	2002		
	(In millions, except % change)			
General and Administrative Expense	\$ 28.8	\$ 35.8	\$ (7.0)	(19.6)%
Other (Income) Expense, net				
Equity in earnings of joint ventures	(5.4)	(4.4)	(1.0)	22.7%
Interest income	(12.7)	(9.9)	(2.8)	28.3%
Interest expense	105.4	108.4	(3.0)	(2.8)%
Loss on retirement of debt	15.7	-	15.7	N/M
Loss on impairment of note receivable from related party	21.3	-	21.3	N/M
Other, net	3.3	1.1	2.2	N/M
Income Tax Expense (Benefit)	(9.0)	27.7	(36.7)	N/M
Cumulative Effect of a Change in Accounting Principle	-	1,363.7	(1,363.7)	N/M

"N/M" means not meaningful

The decrease in general and administrative expense was primarily attributable to \$4.4 million of costs related to the exchange of our notes for TODCO's notes in March 2002, as more fully described in Note 3 to our condensed consolidated financial statements. In addition, personnel expenses decreased \$2.2 million primarily due to lower pension expense in 2003, a one-time curtailment gain related to retiree life insurance and an adjustment to cash surrender value of executive life insurance.

The increase in equity in earnings of joint ventures was primarily related to our 60 percent share of the earnings of DDII LLC, which leases the Deepwater Frontier. This rig experienced increased utilization during the five months ended May 31, 2003, at which time we completed the buyout of ConocoPhillips' 40 percent interest in DDII LLC, compared to the first six months of 2002, due to shipyard downtime in 2002. Offsetting the increase in equity in earnings of joint ventures was our 25 percent share of losses from Delta Towing, which included our share of a \$2.5 million non-cash impairment charge on the carrying value of idle equipment recorded by the joint venture. The increase in interest income was primarily due to interest earned on higher average cash balances for the six months ended June 30, 2003 compared to the same period in 2002. The decrease in interest expense was attributable to reductions of interest expense of \$8.1 million associated with debt refinanced, repaid or retired during and subsequent to June 30, 2002. We also received a refund of interest in 2003 from a taxing authority compared to an interest payment in 2002 that resulted in a reduction in interest expense of \$1.8 million. We terminated our fixed to floating interest rate swaps in the first quarter of 2003, which resulted in an increase in interest expense of \$17.1 million,

partially offset by a \$10.0 million decrease in interest expense related to the recognition of the gain from the termination of these interest rate swaps (see "-Derivative Instruments").

During the six months ended June 30, 2003, we recognized a \$15.7 million loss on early retirements of debt as more fully described in Note 3 to our condensed consolidated financial statements.

During the six months ended June 30, 2003, we recorded a \$21.3 million impairment of the notes receivable due from Delta Towing as more fully described in Note 11 to our condensed consolidated financial statements.

We recognized a \$2.3 million loss in other, net relating to the revaluation of a local currency into functional U.S dollars for the six months ended June 30, 2003 (see "-Item 3. Quantitative and Qualitative Disclosures about Market Risk-Foreign Exchange Risk").

We operate internationally and provide for income taxes based on the tax laws and rates in the countries in which we operate and earn income. There is no expected relationship between the provision for income taxes and income before income taxes. The six months ended June 30, 2003 included a tax benefit of \$14.6 million attributable to the favorable resolution of a non-U.S. income tax liability and income tax benefits resulting from non-cash impairments and loss on debt retirements, partially offset by an increase in the estimated annual effective tax rate for the six months ended June 30, 2003 to approximately 38 percent of earnings before asset impairments, notes receivable impairment and loss on debt retirements compared to approximately 15 percent for the comparable period in 2002.

During the six months ended June 30, 2002, we recognized a \$1,363.7 million cumulative effect of a change in accounting principle in our Gulf of Mexico Shallow and Inland Water segment related to the implementation of SFAS 142 as more fully described in Note 2 to our condensed consolidated financial statements.

FINANCIAL CONDITION

	June 30, 2003	December 31, 2002	Change	%
	-----	-----	-----	-----
	(In millions)			
TOTAL ASSETS				
International and U.S. Floater Contract Drilling Services	\$10,913.8	\$ 11,804.1	\$(890.3)	(7.5)%
Gulf of Mexico Shallow and Inland Water	792.0	861.0	(69.0)	(8.0)%
	-----	-----	-----	-----
	\$11,705.8	\$ 12,665.1	\$(959.3)	(7.6)%
	=====	=====	=====	=====

The decrease in the assets of the International and U.S. Floater Contract Drilling Services segment was mainly due to a decrease in cash and cash equivalents (\$514.5 million) that resulted primarily from the repayment of debt during 2003 (see Note 3 to our condensed consolidated financial statements). Also contributing to the decrease in this segment's assets was a reduction in other assets primarily due to the termination of interest rate swaps (\$181.3 million) during 2003 (see Note 6 to our condensed consolidated financial statements). In addition, the sale of a jackup rig (\$18.0 million net book value), normal depreciation (\$208.0 million) and asset impairments (\$5.2 million) during 2003 further reduced the assets in this segment (see Note 8 to our condensed consolidated financial statements). The decrease in the assets of the Gulf of Mexico Shallow and Inland Water segment was primarily due to normal depreciation (\$46.3 million) and asset impairments (\$11.6 million) and the impairment of a related party note receivable (\$21.3 million) during 2003 (see Notes 8 and 11 to our condensed consolidated financial statements).

RESTRUCTURING CHARGES

In September 2002, we committed to a restructuring plan to eliminate our engineering department located in Montrouge, France. We established a liability of \$2.8 million for the estimated severance-related costs associated with the involuntary termination of 16 employees pursuant to this plan. The charge was reported as operating and maintenance expense in the International and U.S. Floater Contract Drilling Services segment in our condensed consolidated statements of operations. As of June 30, 2003, \$2.1 million had been paid representing full or partial payments to all 16 employees whose positions were eliminated as a result of this plan. We released the expected surplus liability of \$0.3 million to operating and maintenance expense in June 2003.

In September 2002, we committed to a restructuring plan for a staff reduction in Norway as a result of a decline in activity in that region. We established a liability of \$1.2 million for the estimated severance-related costs associated with the involuntary termination of eight employees pursuant to this plan. The charge was reported as operating and maintenance expense in the International and U.S. Floater Contract Drilling Services segment in our condensed consolidated statements of operations. As of June 30, 2003, \$0.8 million had been paid representing full or partial payments to five employees whose positions have been eliminated as a result of this plan. We anticipate that substantially all amounts will be paid by the end of the first quarter of 2005.

In September 2002, we committed to a restructuring plan to consolidate certain functions and offices utilized in our Gulf of Mexico Shallow and Inland Water segment. The plan resulted in the closure of an administrative office and warehouse in Louisiana and relocation of most of the operations and administrative functions previously conducted at that location. We established a liability of \$1.2 million for the estimated severance-related costs associated with the involuntary termination of 57 employees pursuant to this plan. The charge was reported as operating and maintenance expense in our condensed consolidated statements of operations. As of June 30, 2003, substantially all of the \$1.2 million previously established liability was paid to 50 employees whose employment was terminated as a result of this plan.

OUTLOOK

Fleet utilization and average dayrates decreased within our International and U.S. Floater Contract Drilling Services business segment during the second quarter of 2003 compared with the first quarter of 2003. Within our Gulf of Mexico Shallow and Inland Water business segment fleet utilization increased slightly and average dayrates decreased during the second quarter of 2003 compared with the first quarter of 2003.

Comparative average dayrates and utilization figures are set forth in the table below.

	Three Months Ended		
	June 30, 2003	March 31, 2003	June 30, 2002
AVERAGE DAYRATES (A)(B)(D)			
INTERNATIONAL AND U.S. FLOATER CONTRACT DRILLING SERVICES SEGMENT:			
Deepwater			
5th Generation	\$ 185,100	\$ 183,800	\$ 188,400
Other Deepwater	\$ 111,500	\$ 113,600	\$ 124,300
Total Deepwater	\$ 147,500	\$ 147,500	\$ 152,200
Mid-Water	\$ 73,600	\$ 77,200	\$ 81,300
Jackups - Non-U.S.	\$ 57,400	\$ 56,900	\$ 57,400
Other Rigs	\$ 41,500	\$ 43,200	\$ 40,400
Segment Total	\$ 88,900	\$ 91,600	\$ 93,500
GULF OF MEXICO SHALLOW AND INLAND WATER SEGMENT:			
Jackups and Submersibles	\$ 18,200	\$ 19,700	\$ 20,200
Inland Barges	\$ 16,100	\$ 17,600	\$ 20,200
Other Rigs	\$ 18,600	\$ 19,000	\$ 24,100
Segment Total	\$ 17,500	\$ 18,500	\$ 21,000
Total Mobile Offshore Drilling Fleet	\$ 65,300	\$ 69,100	\$ 78,000
UTILIZATION (A)(C)(D)			
INTERNATIONAL AND U.S. FLOATER CONTRACT DRILLING SERVICES SEGMENT:			
Deepwater			
5th Generation	88%	97%	89%
Other Deepwater	70%	76%	85%
Total Deepwater	78%	85%	87%
Mid-Water	55%	53%	72%
Jackups - Non-U.S.	86%	87%	82%
Other Rigs	41%	36%	64%
Segment Total	68%	69%	78%
GULF OF MEXICO SHALLOW AND INLAND WATER SEGMENT:			
Jackups and Submersibles	44%	31%	27%
Inland Barges	39%	47%	24%
Other Rigs	44%	35%	37%
Segment Total	42%	38%	27%
Total Mobile Offshore Drilling Fleet	56%	55%	56%

(a) Applicable to all rigs.

- (b) Average dayrate is defined as contract drilling revenue earned per revenue earning day.
- (c) Utilization is defined as the total actual number of revenue earning days as a percentage of the total number of calendar days in the period.
- (d) Effective January 1, 2003, the calculation of average dayrates and utilization was changed to include all rigs based on contract drilling revenues. Prior periods have been restated to reflect the change.

Commodity prices have continued at relatively strong levels during 2003. Demand for our drilling rigs is driven in part by our clients' perception of future commodity prices, coupled with a number of associated factors including the availability of drilling prospects, relative production costs, the stage of reservoir development and political environments. It is unclear why the current strong commodity prices have not translated into increased drilling activity, and we do not see any significant indication that activity will increase materially in the near-term with the exception of Mexico and India where activity continues to increase.

We see mixed signals in the short-term outlook for our deepwater fleet. There are opportunities in the short-term for deepwater rigs in India and West Africa although we are concerned about the existing oversupply in the U.S. Gulf of Mexico. However, we remain optimistic about the longer-term deepwater outlook. The number of large discoveries in West Africa combined with continuing exploratory interest in that region and demand for deepwater rigs in India are positive developments supporting long-term deepwater activity.

The non-U.S. jackup market sector remains strong despite some current idle capacity in West Africa, and we look for this activity level to continue through 2003. Opportunities in Mexico and India are contributing to an already relatively strong market sector.

The mid-water floater business remains extremely weak as this segment continues to be significantly oversupplied globally. While we have seen an increase in activity for mid-water rigs in the North Sea due to seasonal summer work, the outlook there and elsewhere appears poor beyond that point. We expect the global mid-water sector to continue to be oversupplied throughout 2003.

The recovery in the U.S. Gulf of Mexico shallow and inland market segment has been limited to date. Dayrates for shallow water jackups have strengthened marginally and the demand for jackups in Mexico and India should continue to indirectly help this sector as rigs leave the U.S. Gulf of Mexico for these countries. The inland barge drilling market continues to be soft and industry-wide utilization has decreased since the beginning of 2003.

The contract drilling market historically has been highly competitive and cyclical, and we are unable to predict the extent to which current market conditions will continue. A decline in oil or gas prices could further reduce demand for our contract drilling services and adversely affect both utilization and dayrates.

In May 2003, we purchased ConocoPhillips' 40 percent interest in DDII LLC. DDII LLC is the lessee in a synthetic lease financing facility entered into in connection with the construction of the Deepwater Frontier. As a result of this purchase, we consolidated DDII LLC during the second quarter of 2003. Pursuant to the lease financings, the rig is owned by a special purpose entity and leased to DDII LLC. In July 2003, the value of the rig and the debt and equity financing associated with the lease will be reflected on our balance sheet as a result of the application of the Financial Accounting Standards Board's ("FASB") Interpretation ("FIN") 46, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51. We expect the amount of the rig and debt and equity financing to be reflected on our balance sheet to be approximately \$207 million and \$162 million, respectively. See "-Special Purpose Entities, Sale/Leaseback Transaction and Related Party Transactions."

During the quarter ended June 30, 2003, we deferred costs primarily related to mobilizations and contract preparation of \$19.7 million and recognized amortization expense of previously deferred mobilization and contract preparation costs of \$26.8 million. We expect to defer approximately \$31 million in mobilization and contract preparation costs and to amortize to expense approximately \$26 million in the third quarter of 2003. Our expectations are based upon certain of our rigs being awarded contracts for which bids have been submitted and for those contracts that have been awarded to begin at the contractual start date. We cannot provide any assurance that the contracts under

bid will be awarded to us or that awarded contracts will begin when anticipated. As such, actual cost deferrals and amortizations could vary from these estimates.

Our income tax returns are subject to review and examination in the various jurisdictions in which we operate. The U.S. Internal Revenue Service is currently auditing the years 1999, the year we became a Cayman Islands company, and 2000. In addition, other tax authorities have examined the amounts of income and expense subject to tax in their jurisdiction for prior periods. We are currently contesting additional assessments, which have been asserted, and may contest any future assessments. While the outcome of these assessments is not presently known, we do not believe that the ultimate resolution of these asserted income tax liabilities will have a material adverse effect on our business or consolidated financial position. As a result of the deterioration in 2003 profitability, our annual effective tax rate is now estimated to be approximately 38 percent for 2003, excluding the income tax benefit attributable to the favorable resolution of a non-U.S. income tax liability, the non-cash asset impairments and the loss on retirements of debt.

We previously reported that we expected to begin making annual contributions to our qualified defined benefit pension plans (the "Retirement Plans") in 2003 of approximately \$11 million and that we expected pension expense related to these plans to increase by approximately \$7 million in 2003 as compared to 2002. Based on the most recent actuarial valuations received, we now expect to make no annual contribution to the Retirement Plans in 2003. Also, we expect the required contribution to the Retirement Plans in 2004 to be approximately \$5 million and pension expense related to these plans to increase by approximately \$1 million in 2003 compared to 2002. Continued poor performance in the equity markets and significant plan changes could result in additional significant changes to the accumulated other comprehensive loss component of shareholders' equity and additional increases in future pension expense and funding requirements.

As of July 29, 2003, approximately 58 percent and 32 percent of our International and U.S. Floater Contract Drilling Services segment fleet days were committed for the remainder of 2003 and for the year 2004, respectively. For our Gulf of Mexico Shallow and Inland Water segment, which has traditionally operated under short-term contracts, committed fleet days were approximately 10 percent for the remainder of 2003 and five percent is currently committed for the year 2004.

LIQUIDITY AND CAPITAL RESOURCES

SOURCES AND USES OF CASH

	Six Months Ended June 30,		
	2003	2002	Change
	(In millions)		
NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net income (loss)	\$ 2.7	\$ (1,206.4)	\$ 1,209.1
Depreciation	254.3	249.9	4.4
Other non-cash items	6.3	1,338.0	(1,331.7)
Changes in working capital items	41.9	(1.0)	42.9
	\$ 305.2	\$ 380.5	\$ (75.3)

Cash generated from net income items adjusted for non-cash activity decreased \$118.2 million. Cash provided by working capital items increased \$42.9 million due to lower revenue resulting in a reduction in accounts receivable coupled with an increase in net interest payable due to the termination of our interest rate swaps in the first quarter of 2003 (see "- Derivative Instruments"), partially offset by a decrease in income tax payable.

	Six Months Ended June 30,		
	2003	2002	Change
	(In millions)		
NET CASH USED IN INVESTING ACTIVITIES			
Capital expenditures	\$ (50.2)	\$ (81.2)	\$ 31.0
Note issued to related party, net of repayments	(45.3)	-	(45.3)
Proceeds from disposal of assets	3.2	65.0	(61.8)
Acquisition of 40% interest in DDII LLC, net of cash acquired	18.1	-	18.1
Other, net	2.2	-	2.2
	<u>\$ (72.0)</u>	<u>\$ (16.2)</u>	<u>\$ (55.8)</u>

Net cash used in investing activities increased for the six months ended June 30, 2003 as compared to the same period in the previous year as a result of the reduction in proceeds from asset sales, which was partially offset by the reduction in current quarter capital expenditures (see "- Capital Expenditures"). A note receivable of \$46.1 million was issued to a related party and we acquired ConocoPhillips' 40 percent interest in DDII LLC in May 2003 (see Note 11 to our condensed consolidated financial statements).

	Six Months Ended June 30,		
	2003	2002	Change
	(In millions)		
NET CASH USED IN FINANCING ACTIVITIES			
Repayments under commercial paper program	\$ -	\$ (326.4)	\$ 326.4
Cash received from termination of interest rate swaps	173.5	-	173.5
Repayments of debt obligations	(919.2)	(119.6)	(799.6)
Other, net	12.3	(15.8)	28.1
	<u>\$ (733.4)</u>	<u>\$ (461.8)</u>	<u>\$ (271.6)</u>

We repaid \$326.4 million under our commercial paper program during the six months ended June 30, 2002 while no such payment was made for the same period in 2003. For the six months ended June 30, 2003, we received interest rate swap termination proceeds of \$173.5 million (see "-Derivative Instruments"). In 2003, we used cash of \$527.2 million to repurchase our Zero Coupon Convertible Debentures that were put to us in May 2003, \$50.0 million for the early repayment of our 9.41% Nautilus Class A2 Notes, and \$342.0 million for other scheduled debt maturities. This compares to cash paid of \$50.6 million for the early repayment of secured rig financing on the Trident IX and Trident 16 and \$69.0 million for other scheduled debt maturities in 2002. The increase in cash provided in other, net is due to \$8.3 million in consent payments in 2002 related to the exchange of our notes for R&B Falcon notes as well as an increase of \$2.2 million in proceeds from the issuance of shares to the Employee Share Purchase Program. Additionally, dividends of \$19.1 million were paid in the six months ended June 30, 2002. Payment of dividends was discontinued after the second quarter of 2002.

CAPITAL EXPENDITURES

Capital expenditures totaled \$50.2 million during the six months ended June 30, 2003. During 2003, we expect to spend between \$140.0 million and \$150.0 million on our existing fleet, corporate infrastructure and major upgrades. A substantial majority of our expected capital expenditures in 2003 relates to the International and U.S. Floater Contract Drilling Services segment.

We intend to fund the cash requirements relating to our capital expenditures through available cash balances, cash generated from operations and asset sales. We also have available borrowings under our revolving credit agreements and commercial paper program (see "-Sources of Liquidity") and may engage in other commercial bank or capital market financings.

ACQUISITIONS AND DISPOSITIONS

From time to time, we review possible acquisitions or dispositions of businesses and drilling units and may in the future make significant capital commitments for such purposes. Any such acquisition could involve the payment by us of a substantial amount of cash or the issuance of a substantial number of additional ordinary shares or other securities. We would likely fund the cash portion of any such acquisition through cash balances on hand, the incurrence of additional debt, sales of assets, ordinary shares or other securities or a combination thereof.

In January 2003, in our International and U.S. Floater Contract Drilling Services segment, we completed the sale of a jackup rig, the RBF 160, for net proceeds of \$13.0 million and recognized a net after-tax gain of \$0.2 million. The proceeds were received in December 2002.

During the six months ended June 30, 2003, we settled an insurance claim and sold certain other assets for net proceeds of approximately \$3.2 million and recorded net after-tax gains of \$1.4 million in our International and U.S. Floater Contract Drilling Services segment and \$0.2 million in our Gulf of Mexico Shallow and Inland Water segment.

We continue to proceed with our previously announced plans to pursue an initial public offering of our Gulf of Mexico Shallow and Inland Water business. Our plan is to separate this business from Transocean and establish it as a publicly traded company. We have completed our reorganization of TODCO as the entity that owns this business in preparation of the offering. We expect to complete the initial public offering when market conditions warrant, subject to various factors. Given the current general uncertainty in the equity and U.S. natural gas drilling markets, we are unsure when the transaction could be completed on terms acceptable to us. See "-Overview."

SOURCES OF LIQUIDITY

Our primary sources of liquidity in the second quarter of 2003 were our cash flows from operations and existing cash balances. The primary use of cash was debt repayment. At June 30, 2003, we had \$714.0 million in cash and cash equivalents.

We anticipate that we will rely primarily upon existing cash balances and internally generated cash flows to maintain liquidity in 2003, as cash flows from operations are expected to be positive and, together with existing cash balances, adequate to fulfill anticipated obligations. See Note 3 to our condensed consolidated financial statements. From time to time, we may also use bank lines of credit and commercial paper to maintain liquidity for short-term cash needs.

We intend to use the proceeds from the initial public offering of our Gulf of Mexico Shallow and Inland Water business, as well as any proceeds from asset sales (see "-Acquisitions and Dispositions"), to further reduce our debt balances.

We intend to use cash from operations primarily to pay debt as it comes due and to fund capital expenditures. If we seek to reduce our debt other than through scheduled maturities, we could do so through repayment of bank borrowings or through repurchases or redemptions of, or tender offers for, debt securities. At June 30, 2003 and December 31, 2002, our total debt was \$3,758.3 million and \$4,678.0 million, respectively. We have significantly reduced capital expenditures compared to prior years due to the completion of our newbuild program in 2001. During the six months ended June 30, 2003, we reduced net debt, defined as total debt less swap receivables and cash and cash equivalents, by \$238.2 million. The components of net debt at carrying value were as follows (in millions):

	June 30, 2003	December 31, 2002
	-----	-----
Total Debt	\$ 3,758.3	\$ 4,678.0
Less: Cash and cash equivalents	(714.0)	(1,214.2)
Swap receivables	-	(181.3)

We believe net debt provides useful information regarding the level of our indebtedness by reflecting cash and investments that could be used to repay debt. Net debt has been consistently reduced since 2001 due to the fact that cash flows, primarily from operations and asset sales, have been greater than that needed for capital expenditures.

Our internally generated cash flow is directly related to our business and the market segments in which we operate. Should the drilling market deteriorate further, or should we experience poor results in our operations, cash flow from operations may be reduced. However, we have continued to generate positive cash flow from operating activities over recent years.

We have access to \$800 million in bank lines of credit under two revolving credit agreements, a 364-day revolving credit agreement providing for \$250 million in borrowings and expiring in December 2003 and a five-year revolving credit agreement providing for \$550 million in borrowings and expiring in December 2005. These credit lines are used primarily to back our \$800 million commercial paper program and may also be drawn on directly. As of June 30, 2003, none of the credit line capacity was utilized.

The bank credit lines require compliance with various covenants and provisions customary for agreements of this nature, including an interest coverage ratio and leverage ratio, both as defined by the credit agreements, of not less than three to one and not greater than 40 percent, respectively. In calculating the leverage ratio, the credit agreements specifically exclude the impact on total capital of all fair value adjustments attributable to current or terminated interest rate swaps as well as non-cash goodwill impairment charges recorded in compliance with SFAS 142 (see Note 2 to our condensed consolidated financial statements). Other provisions of the credit agreements include limitations on creating liens, incurring debt, transactions with affiliates, sale/leaseback transactions and mergers and sale of substantially all assets. Should we fail to comply with these covenants, we would be in default and may lose access to these facilities. A loss of the bank facilities would also cause us to lose access to the commercial paper markets. We are also subject to various covenants under the indentures pursuant to which our public debt was issued, including restrictions on creating liens, engaging in sale/leaseback transactions and engaging in merger, consolidation or reorganization transactions. A default under our public debt could trigger a default under our credit lines and cause us to lose access to these facilities. See Note 8 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2002 for a description of our credit agreements and debt securities.

In April 2001, the Securities and Exchange Commission ("SEC") declared effective our shelf registration statement on Form S-3 for the proposed offering from time to time of up to \$2.0 billion in gross proceeds of senior or subordinated debt securities, preference shares, ordinary shares and warrants to purchase debt securities, preference shares, ordinary shares or other securities. At June 30, 2003, \$1.6 billion in gross proceeds of securities remained unissued under the shelf registration statement.

Our access to commercial paper, debt and equity markets may be reduced or closed to us due to a variety of events, including, among others, downgrades of ratings of our debt and commercial paper, industry conditions, general economic conditions, market conditions and market perceptions of us and our industry.

Our contractual obligations in the table below include our debt obligations at face value.

	For the twelve months ending June 30,				
Total	2004	2005-2006	2007-2008	Thereafter	
(In millions)					
CONTRACTUAL OBLIGATIONS					
Debt	\$3,567.5	\$ 281.2	\$ 867.3	\$ 369.0	\$ 2,050.0
	=====	=====	=====	=====	=====

The bondholders may, at their option, require us to repurchase the 1.5% Convertible Debentures due 2021, the 7.45% Notes due 2027 and the Zero Coupon Convertible Debentures due 2020 in May 2006, April 2007 and May 2008, respectively. With regard to both series of the Convertible Debentures, we have the option to pay the repurchase price in cash, ordinary shares, or any combination of cash and ordinary shares. The chart above assumes that the holders of these Convertible Debentures and notes exercise the options at the first available date. We are also required

to repurchase the convertible debentures at the option of the holders at other later dates as more fully described in Note 8 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2002.

We have certain operating leases that have been previously discussed and reported in our Annual Report on Form 10-K for the year ended December 31, 2002. There have been no material changes in these previously reported leases.

At June 30, 2003, we had other commitments that we are contractually obligated to fulfill with cash should the obligations be called. These obligations include standby letters of credit and surety bonds that guarantee our performance as it relates to our drilling contracts, insurance, tax and other obligations in various jurisdictions. Letters of credit are issued under a number of facilities provided by several banks. The obligations that are the subject of these surety bonds are geographically concentrated in the United States, Brazil and Nigeria. These letters of credit and surety bond obligations are not normally called as we typically comply with the underlying performance requirement. The table below provides a list of these obligations in U.S. dollar equivalents and their time to expiration. It should be noted that these obligations could be called at any time prior to the expiration dates.

We currently expect to use cash on hand to repay our portion of the debt and equity financing with respect to Deepwater Drilling L.L.C. ("DD LLC") and the related purchase option guarantees-joint venture and all of the debt and equity financing with respect to DDII LLC and the purchase option guarantees-related party included in the table below. We could, however, decide to finance these amounts with new debt.

	For the twelve months ending June 30,				
	Total	2004	2005-2006	2007-2008	Thereafter
	(In millions)				
OTHER COMMERCIAL COMMITMENTS					
Standby Letters of Credit	\$ 78.7	\$ 65.2	\$ 6.3	\$ 7.2	\$ -
Surety Bonds	159.6	96.5	63.1	-	-
Purchase Option Guarantees- Related Party (a)	151.8	151.8	-	-	-
Purchase Option Guarantees- Joint Ventures (a)	92.6	92.6	-	-	-
Other Commitments	0.1	-	0.1	-	-
Total	\$ 482.8	\$ 406.1	\$ 69.5	\$ 7.2	\$ -

(a) See "-Special Purpose Entities, Sale/Leaseback Transaction and Related Party Transactions".

DERIVATIVE INSTRUMENTS

We have established policies and procedures for derivative instruments that have been approved by our Board of Directors. These policies and procedures provide for the prior approval of derivative instruments by our Chief Financial Officer. From time to time, we may enter into a variety of derivative financial instruments in connection with the management of our exposure to fluctuations in foreign exchange rates and interest rates. We do not enter into derivative transactions for speculative purposes; however, for accounting purposes, certain transactions may not meet the criteria for hedge accounting.

As more fully described in Note 6 to our condensed consolidated financial statements, we were a party to interest rate swap agreements with an aggregate notional amount of \$1.6 billion at December 31, 2002. We terminated these agreements during the first quarter of 2003. As a result of these terminations, we had an aggregate fair value adjustment of approximately \$173.5 million included in long-term debt in our condensed consolidated balance sheet, which is being recognized as a reduction to interest expense over the life of the underlying debt.

DD LLC an unconsolidated joint venture in which we have a 50 percent ownership interest, entered into interest rate swaps in August 1998 that have aggregate market values netting to a liability of \$2.9 million at June 30, 2003. Our interest in these swaps has been included in accumulated other comprehensive income, net of tax, with

corresponding reductions to deferred income taxes and investments in and advances to joint ventures in our condensed consolidated balance sheet.

SPECIAL PURPOSE ENTITIES, SALE/LEASEBACK TRANSACTION AND RELATED PARTY TRANSACTIONS

We have transactions with certain special purpose entities and related parties and we are a party to a sale/leaseback transaction. These transactions have been previously discussed and reported in our Annual Report on Form 10-K for the year ended December 31, 2002.

In January 2003, Delta Towing failed to make its scheduled quarterly interest payment of \$1.7 million on the notes receivable and we signed a 90-day waiver of the terms requiring payment of interest. In April 2003, Delta Towing again failed to make its interest payment of \$1.7 million originally due January 2003 after expiration of the 90-day waiver. In April 2003, Delta Towing also failed to make another scheduled quarterly interest payment of \$1.6 million. During the six months ended June 30, 2003, we received partial interest payments of approximately \$0.6 million. At June 30, 2003, we had interest receivable from Delta Towing of \$4.3 million. As a result of our continued evaluation of the collectibility of the Delta Towing notes, we recorded an impairment on the notes receivable of \$13.8 million (\$0.04 per diluted share), net of tax of \$7.5 million, in the second quarter of 2003 as an allowance for credit losses. We based the impairment on Delta Towing's discounted projected cash flows over the term of the notes, which deteriorated in the second quarter of 2003 as a result of the continued decline in Delta Towing's business outlook. The amount of the notes receivable outstanding prior to the impairment was \$82.8 million. At June 30, 2003, the carrying value of the notes receivable, net of the related allowance for credit losses, was \$54.8 million. We will establish a reserve for interest income earned on the notes receivable and will apply cash payments to interest receivable currently outstanding and then to interest income for which a reserve has been established.

In May 2003, WestLB AG, one of the lenders in the synthetic lease financing facility to which DDII LLC is the lessee, assigned its \$46.1 million remaining promissory note receivable to us in exchange for cash. As a result of this assignment, we assumed all the rights and obligations of WestLB AG. At June 30, 2003, the balance of the note receivable was \$45.3 million and was recorded as other current assets in our condensed consolidated balance sheets.

Also in May 2003, but subsequent to the WestLB AG assignment, we purchased ConocoPhillips' 40 percent interest in DDII LLC for approximately \$5 million. As a result of this purchase, we consolidated DDII LLC in the second quarter of 2003. In addition, we acquired certain drilling and other contracts from ConocoPhillips for approximately \$9 million. See "-New Accounting Pronouncements."

There have been no other material developments with regards to the special purpose entity related to DD LLC, the sale/leaseback transaction or other related party transactions.

NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 (the "Interpretation"). The Interpretation requires the consolidation of entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. The Interpretation is effective as of the beginning of the first interim period beginning after June 15, 2003 for existing interests and immediately for new interests. Currently, we generally consolidate an entity when we have a controlling interest through ownership of a majority voting interest in the entity.

We have investments in and advances to six joint ventures. One joint venture, DD LLC, was established for the purpose of constructing and leasing a drillship. One joint venture, Delta Towing, was established for the purpose of owning and operating inland and shallow water marine support vessel equipment. The remaining four joint ventures were primarily established for the purpose of owning and operating certain drilling units. While the operations of DD LLC are funded from cash flows from operating activities, we guarantee the debt and equity financing on the drillship equally with our joint venture partner. The debt and equity financing balance for the leased drillship was \$192.6

million at August 1, 2003. We hold notes receivable from Delta Towing with a carrying value of \$54.7 million at August 1, 2003. The remaining joint ventures are funded primarily by cash flows from operating activities.

We account for these investments using the equity method of accounting, recording our share of the net income or loss based upon the terms of the joint venture agreements. Because we have a 50 percent or less ownership interest in these joint ventures, we do not have a controlling interest in the joint ventures nor do we have the ability to exercise significant influence over operating and financial policies.

At the time the Delta Towing joint venture was formed, it issued \$144.0 million in notes to TODCO. Prior to the R&B Falcon merger, \$64.0 million of the notes were fully reserved leaving an \$80.0 million balance at January 31, 2001. This note agreement was subsequently amended to provide for a \$4.0 million, three-year revolving credit facility. Delta Towing's assets serve as collateral for our notes receivable. The Delta Towing joint venture also issued a \$3.0 million note to the 75 percent joint venture partner. Because we have the largest percentage of investment at risk through the notes receivable, we will absorb the majority of the joint venture's expected losses and, therefore, we are deemed to be the primary beneficiary of Delta Towing for accounting purposes. As such, we will consolidate Delta Towing effective July 1, 2003. We expect the consolidation of Delta Towing to result in an increase in current assets of approximately \$5.0 million, an increase in property and equipment, net of approximately \$55.0 million, a decrease in investments in and advances to joint ventures of approximately \$55.0 million, an increase in current liabilities of approximately \$1.0 million and an increase in long-term debt of approximately \$3.0 million.

We are currently evaluating the effects of adopting the Interpretation on the accounting for our ownership interest in our other joint ventures.

We have a wholly owned subsidiary, DDII LLC, that was established as a joint venture with a major oil company for the purpose of constructing and leasing a drillship, the Deepwater Frontier. The drillship was purchased by a trust that was established to finance the purchase through debt and equity financing, which we, under certain circumstances, fully guarantee. On May 29, 2003, the Company purchased the entire 40 percent interest of the major oil company in DDII LLC. We currently account for DDII LLC's lease of the drillship as an operating lease. The balance of the trust's debt and equity financing at June 30, 2003 was approximately \$162.0 million. Because we are at risk for this amount, we are deemed to be the primary beneficiary of the trust for accounting purposes and will consolidate the trust effective July 1, 2003. The drillship serves as collateral for the trust's debt and equity financing. Effective with the consolidation of the trust, the debt and equity financing to be reflected in our balance sheet will be approximately \$153.0 million and \$9.0 million, respectively. The debt financing will be reflected as debt due within one year while the equity financing will be reflected as minority interest within other long-term liabilities in our balance sheet. In addition, we will record approximately \$207.0 million for the drillship as property and equipment, net in our balance sheet and will eliminate our note receivable to related party of \$45.3 million (see Note 11 to our condensed consolidated financial statements).

Effective January 2003, we implemented EITF 99-19, Reporting Revenues Gross as a Principal versus Net as an Agent. As a result of the implementation of the EITF, the costs incurred and charged to our clients on a reimbursable basis are recognized as operating and maintenance expense. In addition, the amounts billed to our clients associated with these reimbursable costs are being recognized as client reimbursable revenue. We expect client reimbursable revenues and operating and maintenance expense to be between \$90 million and \$110 million in 2003 as a result of implementation of EITF 99-19. The change in accounting principle will have no effect on our results of operations or consolidated financial position. Prior periods have not been reclassified, as these amounts were not material.

In May 2003, the FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This statement requires an issuer to measure and classify as liabilities certain financial instruments that have characteristics of both liabilities and equity. SFAS 150 applies to those instruments that represent, or are indexed to, an obligation to buy back the issuer's shares and obligations that can be settled in shares and meet certain conditions. It does not, however, apply to financial instruments that are indexed to and potentially settled in an issuer's own shares. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We

will adopt this statement effective July 1, 2003. However, management does not expect the adoption of this statement to have a material effect on our consolidated financial position or results of operations.

FORWARD-LOOKING INFORMATION

The statements included in this quarterly report regarding future financial performance and results of operations and other statements that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements to the effect that the Company or management "anticipates," "believes," "budgets," "estimates," "expects," "forecasts," "intends," "plans," "predicts," or "projects" a particular result or course of events, or that such result or course of events "could," "might," "may," "scheduled" or "should" occur, and similar expressions, are also intended to identify forward-looking statements. Forward-looking statements in this quarterly report include, but are not limited to, statements involving payment of severance costs, potential revenues, increased expenses, the effect on revenues and expenses of the change in accounting treatment for client reimbursables, client drilling programs, supply and demand, utilization rates, dayrates, planned shipyard projects, expected downtime, opportunities for deepwater rigs in India and West Africa, oversupply in the global mid-water sector, outlook for the deepwater sector, activity in India and Mexico, market outlooks for our various geographical operating sectors, the non-U.S. jackup market sector, future activity in the International and U. S. Floater Contract Drilling Services and Gulf of Mexico Shallow and Inland Water segments, the outcome and effect of the U.S. Internal Revenue Service audit and the various tax assessments, deferred costs, amortization expense, the planned initial public offering of our Gulf of Mexico Shallow and Inland Water business (including the timing of the offering and portion sold), the U.S. gas drilling market, planned asset sales, the Company's other expectations with regard to market outlook, expected capital expenditures, results and effects of legal proceedings, liabilities for tax issues, liquidity, positive cash flow from operations, the exercise of the option of holders of 7.5% Notes, 1.5% Convertible Debentures or Zero Coupon Convertible Debentures to require the Company to repurchase their securities, repayment of debt and equity financings with respect to DD LLC and DDII LLC, receipt of principal and interest on debt owed to the Company by Delta Towing, effects of the consolidation of Delta Towing and DDII LLC, adequacy of cash flow for 2003 obligations, effects of accounting changes, and the timing and cost of completion of capital projects. Such statements are subject to numerous risks, uncertainties and assumptions, including, but not limited to, worldwide demand for oil and gas, uncertainties relating to the level of activity in offshore oil and gas exploration and development, exploration success by producers, oil and gas prices (including U.S. natural gas prices), securities market conditions, demand for offshore and inland water rigs, competition and market conditions in the contract drilling industry, our ability to successfully integrate the operations of acquired businesses, delays or terminations of drilling contracts due to a number of events, delays or cost overruns on construction and shipyard projects and possible cancellation of drilling contracts as a result of delays or performance, our ability to enter into and the terms of future contracts, the availability of qualified personnel, labor relations and the outcome of negotiations with unions representing workers, operating hazards, political and other uncertainties inherent in non-U.S. operations (including exchange and currency fluctuations), risks of war, terrorism and cancellation or unavailability of certain insurance coverage, the impact of governmental laws and regulations, the adequacy of sources of liquidity, the effect and results of litigation, audits and contingencies and other factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2002 and in the Company's other filings with the SEC, which are available free of charge on the SEC's website at www.sec.gov. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated. You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

Our exposure to market risk for changes in interest rates relates primarily to our long-term and short-term debt obligations. The table below presents scheduled debt maturities and related weighted-average interest rates for each of the twelve-month periods ending June 30 relating to debt obligations as of June 30, 2003. Weighted-average variable rates are based on LIBOR rates at June 30, 2003, plus applicable margins.

At June 30, 2003 (in millions, except interest rate percentages):

	Scheduled Maturity Date (a) (b)						Total	Fair Value 06/30/03
	2004	2005	2006	2007	2008	Thereafter		
Total debt								
Fixed Rate	\$131.2	\$ 392.3	\$400.0	\$ 100.0	\$269.0	\$ 2,050.0	\$3,342.5	\$ 3,868.5
Average interest rate	8.5%	6.8%	1.5%	7.5%	6.7%	7.5%	6.7%	
Variable Rate	\$150.0	\$ 75.0	-	-	-	-	\$ 225.0	\$ 225.0
Average interest rate	1.7%	1.7%	-	-	-	-	1.7%	

(a) Maturity dates of the face value of our debt assumes the put options on 1.5% Convertible Debentures, 7.45% Notes and the Zero Coupon Convertible Debentures will be exercised in May 2006, April 2007 and May 2008, respectively.

(b) Expected maturity amounts are based on the face value of debt.

At June 30, 2003, we had approximately \$225.0 million of variable rate debt at face value (six percent of total debt at face value). This variable rate debt represented term bank debt. Given outstanding amounts as of that date, a one percent rise in interest rates would result in an additional \$1.2 million in interest expense per year. Offsetting this, a large part of our cash investments would earn commensurately higher rates of return. Using June 30, 2003 cash investment levels, a one percent increase in interest rates would result in approximately \$7.1 million of additional interest income per year.

FOREIGN EXCHANGE RISK

Our international operations expose us to foreign exchange risk. We use a variety of techniques to minimize the exposure to foreign exchange risk. Our primary foreign exchange risk management strategy involves structuring client contracts to provide for payment in both U.S. dollars and local currency. The payment portion denominated in local currency is based on anticipated local currency requirements over the contract term. Due to various factors, including local banking laws, other statutory requirements, local currency convertibility and the impact of inflation on local costs, actual foreign exchange needs may vary from those anticipated in the client contracts, resulting in partial exposure to foreign exchange risk. Fluctuations in foreign currencies typically have minimal impact on overall results. In situations where payments of local currency do not equal local currency requirements, foreign exchange derivative instruments, specifically foreign exchange forward contracts or spot purchases, may be used. We do not enter into derivative transactions for speculative purposes. At June 30, 2003, we had no material open foreign exchange contracts.

In January 2003, Venezuela implemented foreign exchange controls that limit our ability to convert local currency into U.S. dollars and transfer excess funds out of Venezuela. Our drilling contracts in Venezuela typically call for payments to be made in local currency, even when the dayrate is denominated in U.S. dollars. The exchange controls could also result in an artificially high value being placed on the local currency. As a result, we recognized a \$1.5 million after-tax loss on the revaluation of the local currency into functional U.S. dollars for the six months ended June 30, 2003.

ITEM 4. CONTROLS AND PROCEDURES

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2003 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in our internal controls over financial reporting that occurred during the three months ended June 30, 2003 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In March 1997, an action was filed by Mobil Exploration and Producing U.S. Inc. and affiliates, St. Mary Land & Exploration Company and affiliates and Samuel Geary and Associates Inc. against one of our subsidiaries, Cliffs Drilling, our underwriters at Lloyd's (the "Underwriters") and an insurance broker in the 16th Judicial District Court of St. Mary Parish, Louisiana. The plaintiffs alleged damages in excess of \$50 million in connection with the drilling of a turnkey well in 1995 and 1996. The case was tried before a jury in January and February 2000, and the jury returned a verdict of approximately \$30 million in favor of the plaintiffs for excess drilling costs, loss of insurance proceeds, loss of hydrocarbons, expenses and interest. We and the Underwriters appealed such judgment, and the Louisiana Court of Appeals reduced the amount for which we may be responsible to less than \$10 million. The plaintiffs requested that the Supreme Court of Louisiana consider the matter and reinstate the original verdict. We and the Underwriters also appealed to the Supreme Court of Louisiana requesting that the Court reduce the verdict or, in the case of the Underwriters, eliminate any liability for the verdict. Prior to the Supreme Court of Louisiana ruling on these petitions, we settled with the St. Mary group of plaintiffs and the State of Louisiana. Subsequently, the Supreme Court of Louisiana denied the applications of all remaining plaintiffs. We settled with all remaining plaintiffs in the second quarter of 2003. We believe that any amounts, apart from a small deductible, paid in the settlement are covered by relevant primary and excess liability insurance policies. However, the insurers and the Underwriters have denied all coverage. We have instituted litigation against those insurers and Underwriters to enforce our rights under the relevant policies. One group of issuers has asserted a counterclaim against us claiming that they issued the policy as a result of misrepresentation. The settlements did not have a material adverse effect on our business or consolidated financial position. We do not expect the ultimate outcome of the case to have a material adverse effect on our business or consolidated financial position.

We have certain other actions or claims pending that have been previously discussed and reported in our Annual Report on Form 10-K for the year ended December 31, 2002 and our other reports filed with the Securities and Exchange Commission. There have been no material developments in these previously reported matters. We are involved in a number of other lawsuits, all of which have arisen in the ordinary course of our business. We do not believe that ultimate liability, if any, resulting from any such other pending litigation will have a material adverse effect on our business or consolidated financial position. There can be no assurance that our beliefs or expectations as to the outcome or effect of any lawsuit or other litigation matter will prove correct and the eventual outcome of these matters could materially differ from management's current estimates.

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

At the Annual General Meeting of Transocean Inc. held on May 8, 2003, 272,757,297 shares were represented in person or by proxy out of 319,767,820 shares entitled to vote as of the record date, constituting a quorum.

The matters submitted to a vote of shareholders were (i) the election of Class I Directors as set forth in the Company's Proxy Statement relating to the meeting; (ii) the amendment of the Company's Long-Term Incentive Plan to allow grants or incentive stock options for an additional ten year period to May 1, 2013 and to allow a continuing right to grant stock options and share appreciation rights to our outside directors; (iii) the amendment of the Company's Employee Stock Purchase Plan to increase the number of ordinary shares reserved for issuance under the plan from 1,500,000 to 2,500,000; and (iv) the approval of appointment of Ernst & Young LLP as independent auditors for 2003. With respect to the re-election of directors, the following number of votes were cast as to the Class I Director nominees: Victor E. Grijalva, 240,921,742 votes for and 31,835,555 votes withheld; Arthur Lindenauer, 260,182,393 votes for and 12,574,904 withheld; Richard A. Pattarozzi, 260,792,569 votes for and 11,964,728 votes withheld; Kristian Siem, 258,264,644 votes for and 14,492,653 withheld; and J. Michael Talbert, 259,108,809 votes for and 13,648,488 votes withheld. With respect to the amendment of the Company's Long-Term Incentive Plan, 242,440,573 votes were cast for the proposal and 26,645,604 votes were cast against the proposal. There were 2,668,773 abstentions and 1,002,347 broker non-votes in the vote on the proposal. With respect to the amendment of the Company's Employee Stock Purchase Plan, 264,793,085 votes were cast for the proposal and 4,412,002 votes were cast against the proposal. There were 2,549,863 abstentions and 1,002,347 broker non-votes in the vote on the

proposal. With respect to the Company's appointment of independent auditors, there were 239,819,902 votes for and 11,517,370 votes withheld on the proposal. There were 21,420,025 abstentions and no broker non-votes on the proposal.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

The following exhibits are filed in connection with this Report:

NUMBER	DESCRIPTION
*3.1	Memorandum of Association of Transocean Inc., as amended (incorporated by reference to Annex E to the Joint Proxy Statement/Prospectus dated October 30, 2000 included in a 424(b)(3) prospectus filed by the Company on November 1, 2000)
*3.2	Articles of Association of Transocean Inc., as amended (incorporated by reference to Annex F to the Joint Proxy Statement/Prospectus dated October 30, 2000 included in a 424(b)(3) prospectus filed by the Company on November 1, 2000)
*3.3	Certificate of Incorporation on Change of Name to Transocean Inc. (incorporated by reference to Exhibit 3.3 to the Company's Form 10-Q for the quarter ended June 30, 2002)
+10.1	Amended and Restated Long-Term Incentive Plan of Transocean Inc., effective May 8, 2003
*10.2	Amended and Restated Employee Stock Purchase Plan of Transocean Inc., effective May 8, 2003 (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 (Registration No. 333-106026) filed by the Company on June 11, 2003)
+31.1	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
+31.2	CF0 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
+32.1	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
+32.2	CF0 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Incorporated by reference as indicated.

+ Filed herewith.

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K on May 6, 2003 (information furnished not filed) announcing the issuance of first quarter 2003 financial results and a Current Report on Form 8-K on May 28, 2003 (information furnished not filed) announcing financial information pertaining to operating and maintenance expense and cash operating costs for the first quarter of 2003 and the fourth quarter of 2002.

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, hereunto duly authorized, on August 12, 2003.

TRANSOCEAN INC.

By: /s/ Gregory L. Cauthen

Gregory L. Cauthen
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

By: /s/ Brenda S. Masters

Brenda S. Masters
Vice President and Controller
(Principal Accounting Officer)

LONG-TERM INCENTIVE PLAN
OF
TRANSOCEAN INC.

(As Amended and Restated Effective May 8, 2003)

I. GENERAL

1.1 PURPOSE OF THE PLAN

The Long-Term Incentive Plan (the "Plan") of Transocean Inc., a Cayman Islands exempted company (the "Company"), is intended to advance the best interests of the Company and its subsidiaries by providing Directors and employees with additional incentives through the grant of options ("Options") to purchase ordinary shares, par value US \$0.01 per share of the Company ("Ordinary Shares"), share appreciation rights ("SARs"), restricted Ordinary Shares ("Restricted Shares") and cash performance awards ("Cash Awards"), thereby increasing the personal stake of such Directors and employees in the continued success and growth of the Company.

1.2 ADMINISTRATION OF THE PLAN

(a) The Plan shall be administered by the Executive Compensation Committee or other designated committee (the "Committee") of the Board of Directors of the Company (the "Board of Directors") which shall consist of at least two Directors, all of whom (i) are not eligible for awards under Articles II and III of the Plan, (ii) are "non-employee directors" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, and (iii) are outside directors satisfying the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended, or any successor thereto ("the Code"). The Committee shall have authority to interpret conclusively the provisions of the Plan, to adopt such rules and regulations for carrying out the Plan as it may deem advisable, to decide conclusively all questions of fact arising in the application of the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. Notwithstanding the foregoing, the Committee shall have no power or discretion to vary the amount or terms of awards under Article IV of the Plan, except as provided in Section 6.2. All decisions and acts of the Committee shall be final and binding upon all affected Plan participants.

(b) The Committee shall designate the eligible employees, if any, to be granted awards under Articles II and III and the type and amount of such awards and the time when awards will be granted. All awards granted under the Plan shall be on the terms and subject to the conditions hereinafter provided.

1.3 ELIGIBLE PARTICIPANTS

Employees, including officers, of the Company and its subsidiaries, and of partnerships or joint ventures in which the Company and its subsidiaries have a significant ownership interest as determined by the Committee (all of such subsidiaries, partnerships and joint ventures being referred to as "Subsidiaries") shall be eligible for awards under Articles II, III and V of the Plan. Directors who are not employees of the Company or its Subsidiaries shall not be eligible for awards under Articles II, III and V.

Each Director of the Company who is not an officer or employee of the Company or any of its subsidiaries (an "Eligible Director") shall automatically be granted awards under Article IV of the Plan. Each Eligible Director to whom Options or SARs are granted under Article IV is hereinafter referred to as a "Participant."

1.4 AWARDS UNDER THE PLAN

Awards to employees under Articles II and III may be in the form of (i) Options to purchase Ordinary Shares, (ii) Share Appreciation Rights which may be either freestanding or issued in tandem with Options, (iii) Restricted Ordinary Shares, (iv) Supplemental Payments which may be awarded with respect to Options, Share Appreciation Rights and Restricted Ordinary Shares, or (v) any combination of the foregoing. Awards to employees under Article V will be in the form of performance awards payable in cash.

Awards to Eligible Directors under Article IV shall be in the form of (i) Options to purchase Ordinary Shares and Supplemental Payments with respect thereto, or (ii) solely in the case of Eligible Directors residing in Norway, freestanding SARs.

1.5 SHARES SUBJECT TO THE PLAN

The aggregate number of Ordinary Shares which may be issued with respect to awards made under Articles II and III shall not exceed 18,900,000 shares, reduced by the number of shares which have been issued pursuant to such Articles prior to January 31, 2001. Of such 18,900,000 shares, the aggregate number of Restricted Ordinary Shares which may be issued pursuant to Article III from and after January 31, 2001, shall not exceed 2,000,000 shares. In addition, the aggregate number of Ordinary Shares which may be issued with respect to awards made under Article IV shall not exceed 600,000, reduced by the number of shares which have been issued pursuant to such Article prior to January 31, 2001. At no time shall the number of shares issued plus the number of shares estimated by the Committee to be ultimately issued with respect to outstanding awards under the Plan exceed the number of shares that may be issued under the Plan. No

employee shall be granted Share Options, freestanding Share Appreciation Rights, or Restricted Ordinary Shares, or any combination of the foregoing, with respect to more than 600,000 Ordinary Shares in any fiscal year (subject to adjustment as provided in Section 6.2). No employee shall be granted a Supplemental Payment in any fiscal year with respect to more than the number of Ordinary Shares covered by Share Options, freestanding Share Appreciation Rights or Restricted Ordinary Shares awards granted to such employee in such fiscal year. Shares distributed pursuant to the Plan may consist of

authorized but unissued shares or treasury shares of the Company, as shall be determined from time to time by the Board of Directors.

If any Option under the Plan shall expire, terminate or be canceled (including cancellation upon the holder's exercise of a related Share Appreciation Right) for any reason without having been exercised in full, or if any Restricted Ordinary Shares shall be forfeited to the Company, the unexercised Options and forfeited Restricted Ordinary Shares shall not count against the above limit and shall again become available for grants under the Plan (regardless of whether the holder of such Options or shares received dividends or other economic benefits with respect to such Options or shares). Ordinary Shares equal in number to the shares surrendered in payment of the option price, and Ordinary Shares which are withheld in order to satisfy federal, state or local tax liability, shall not count against the above limit and shall again become available for grants under the Plan. Only the number of Ordinary Shares actually issued upon exercise of a Share Appreciation Right or payment of a Supplemental Payment shall count against the above limit, and any shares which were estimated to be used for such purposes and were not in fact so used shall again become available for grants under the Plan.

Freestanding Shares Appreciation Rights which may be settled solely in cash shall be issued with respect to no more than an aggregate of 300,000 underlying shares. Such SARs shall not count against the limits set forth above on the number of Ordinary Shares which may be issued under the Plan. If any freestanding SAR shall expire, terminate, or be canceled for any reason without having been exercised in full, the unexercised SARs shall not count against this limit and shall again become available for grants under the Plan.

1.6 OTHER COMPENSATION PROGRAMS

The existence and terms of the Plan shall not limit the authority of the Board of Directors in compensating Directors and employees of the Company and its subsidiaries in such other forms and amounts, including compensation pursuant to any other plans as may be currently in effect or adopted in the future, as it may determine from time to time.

II. SHARE OPTIONS AND SHARE APPRECIATION RIGHTS

2.1 TERMS AND CONDITIONS OF OPTIONS

Subject to the following provisions, all Options granted under the Plan to employees of the Company and its Subsidiaries shall be in such form and shall have such terms and conditions as the Committee, in its discretion, may from time to time determine.

(a) Option Price. The option price per share shall not be less than the fair market value of the Ordinary Shares (as determined by the Committee) on the date the Option is granted. Notwithstanding the foregoing, the option price per share with respect to any Option granted by the Committee within 90 days of the closing of the initial public offering of the Company's Ordinary Shares shall be at the initial public offering price for such Shares.

(b) Term of Option. The term of an Option shall not exceed ten years from the date of grant, except as provided pursuant to Section 2.1(g) with respect to the death of an optionee. No Option shall be exercised after the expiration of its term.

(c) Exercise of Options. Options shall be exercisable at such time or times and subject to such terms and conditions as the Committee shall specify in the Option grant. The Committee shall have discretion to at any time declare all or any portion of the Options held by any optionee to be immediately exercisable. An Option may be exercised in accordance with its terms as to any or all shares purchasable thereunder.

(d) Payment for Shares. The Committee may authorize payment for shares as to which an Option is exercised to be made in cash, Ordinary Shares, by "cashless exercise" or in such other manner as the Committee in its discretion may provide.

(e) Nontransferability of Options. No Option or any interest therein shall be transferable by the optionee other than by will or by the laws of descent and distribution. During an optionee's lifetime, all Options shall be exercisable only by such optionee or by the guardian or legal representative of the optionee.

(f) Shareholder Rights. The holder of an Option shall, as such, have none of the rights of a shareholder.

(g) Termination of Employment. The Committee shall have discretion to specify in the Option grant or an amendment thereof, provisions with respect to the period during which the Option may be exercised following the optionee's termination of employment. Notwithstanding the foregoing, the Committee shall not permit any Option to be exercised beyond the term of the Option established pursuant to Section 2.1(b), except that the Committee may provide that, notwithstanding such Option term, an Option which is outstanding on the date of an optionee's death shall remain outstanding and exercisable for up to one year after the optionee's death.

(h) Change of Control. Notwithstanding the exercisability schedule governing any Option, upon the occurrence of a Change of Control (as defined in Section 6.10) all Options outstanding at the time of such Change of Control and held by optionees who are employees of the Company or its Subsidiaries at the time of such Change of Control shall become immediately exercisable and, unless the optionee agrees otherwise in writing, shall remain exercisable for the remainder of the Option term.

2.2 SHARE APPRECIATION RIGHTS IN TANDEM WITH OPTIONS

(a) The Committee may, either at the time of grant of an Option or at any time during the term of the Option, grant Share Appreciation Rights with respect to all or any portion of the Ordinary Shares covered by such Option. A tandem Share Appreciation Right may be exercised at any time the Option to which it relates is then exercisable, but only to the extent the Option to which it relates is exercisable, and shall be subject to the conditions applicable to such Option. When a tandem Share Appreciation Right is exercised, the Option to which it relates shall cease to be exercisable to the extent of the

number of shares with respect to which the tandem Share Appreciation Right is exercised. Similarly, when an Option is exercised, the tandem Share Appreciation Rights relating to the shares covered by such Option exercise shall terminate. Any tandem Share Appreciation Right which is outstanding on the last day of the term of the related Option (as determined pursuant to Section 2.1(b)) shall be automatically exercised on such date for cash without any action by the optionee.

(b) Upon exercise of a tandem Share Appreciation Right, the holder shall receive, for each share with respect to which the tandem Share Appreciation Right is exercised, an amount (the "Appreciation") equal to the amount by which the fair market value (as defined below) of an Ordinary Share on the date of exercise of the Share Appreciation Right exceeds the option price per share of the Option to which the tandem Share Appreciation Right relates. For purposes of the preceding sentence, the fair market value of an Ordinary Share shall be the average of the high and low prices of such share as reported on the consolidated reporting system. The Appreciation shall be payable in cash, Ordinary Shares, or a combination of both, at the option of the Committee, and shall be paid within 30 days of the exercise of the tandem Share Appreciation Right.

(c) Notwithstanding the foregoing, if a tandem Share Appreciation Right is exercised within 60 days of the occurrence of a Change of Control, (i) the Appreciation and any Supplemental Payment (as defined in Section 2.4) to which the holder is entitled shall be payable solely in cash, and (ii) in addition to the Appreciation and the Supplemental Payment (if any), the holder shall receive, in cash, (1) the amount by which the greater of (a) the highest market price per Ordinary Share during the 60-day period preceding exercise of the tandem Share Appreciation Right or (b) the highest price per Ordinary Share (or the cash-equivalent thereof as determined by the Board of Directors) paid by an acquiring person during the 60-day period preceding a Change of Control, exceeds the fair market value of an Ordinary Share on the date of exercise of the tandem Share Appreciation Right, plus (2) if the holder is entitled to a Supplemental Payment, an additional payment, calculated under the same formula as used for calculating such holder's Supplemental Payment, with respect to the amount referred to in clause (1) of this sentence.

2.3 FREESTANDING SHARE APPRECIATION RIGHTS

The Committee may grant Freestanding Share Appreciation Rights to employees of the Company and its Subsidiaries, in such form and having such terms and conditions as the Committee, in its discretion, may from time to time determine, subject to the following provisions.

(a) Base Price and Appreciation. Each freestanding SAR shall be granted with a base price, which shall not be less than the fair market value of the Ordinary Shares (as determined by the Committee) on the date the SAR is granted. Upon exercise of a freestanding SAR, the holder shall receive, for each share with respect to which the SAR is exercised, an amount (the "Appreciation") equal to the amount by which the fair market value (as defined below) of an Ordinary Share on the date of exercise of the SAR exceeds the base price of the SAR. For purposes of the preceding sentence, the fair market value

of an Ordinary Share shall be the average of the high and low prices of such share as reported on the New York Stock Exchange composite tape. The Appreciation shall be payable in cash and shall be paid within 30 days of the exercise of the SAR.

(b) Term of SAR. The term of a freestanding SAR shall not exceed ten years from the date of grant, except as provided pursuant to Section 2.3(f) with respect to the death of the grantee. No SAR shall be exercised after the expiration of its term. Any freestanding SAR which is outstanding on the last day of its term (as such term may be extended pursuant to Section 2.3(f)) and as to which the Appreciation is a positive number on such date shall be automatically exercised on such date for cash without any action by the grantee.

(c) Exercise of SARs. Freestanding SARs shall be exercisable at such time or times and subject to such terms and conditions as the Committee may specify in the SAR grant. The Committee shall have discretion to at any time declare all or any portion of the freestanding SARs then outstanding to be immediately exercisable. A freestanding SAR may be exercised in accordance with its terms in whole or in part.

(d) Nontransferability of SARs. No SAR or any interest therein shall be transferable by the grantee other than by will or by the laws of descent and distribution. During a grantee's lifetime, all SARs shall be exercisable only by such grantee or by the guardian or legal representative of the grantee.

(e) Shareholder Rights. The holder of an SAR shall, as such, have none of the rights of a shareholder.

(f) Termination of Employment. The Committee shall have discretion to specify in the SAR grant or an amendment thereof, provisions with respect to the period during which the SAR may be exercised following the grantee's termination of employment. Notwithstanding the foregoing, the Committee shall not permit any SAR to be exercised beyond the term of the SAR established pursuant to Section 2.3(b), except that the Committee may provide that, notwithstanding such SAR term, an SAR which is outstanding on the date of a grantee's death shall remain outstanding and exercisable for up to one year after the grantee's death.

(g) Change of Control. Notwithstanding the exercisability schedule governing any SAR, upon the occurrence of a Change of Control (as defined in Section 6.10) all SARs outstanding at the time of such Change of Control and held by grantees who are employees of the Company or its Subsidiaries at the time of such Change of Control shall become immediately exercisable and, unless the grantee agrees otherwise in writing, shall remain exercisable for the remainder of the SAR term. In addition, the Committee may provide that if a freestanding SAR is exercised within 60 days of the occurrence of a Change of Control, in addition to the Appreciation the holder shall receive, in cash, the amount by which the greater of (a) the highest market price per Ordinary Share during the 60-day period preceding exercise of the SAR or (b) the highest price per Ordinary Share (or the cash equivalent thereof as determined by the Board of Directors) paid by an

acquiring person during the 60-day period preceding a Change of Control, exceeds the fair market value of an Ordinary Share on the date of exercise of the SAR.

2.4 SUPPLEMENTAL PAYMENT ON EXERCISE OF OPTIONS OR SHARE APPRECIATION RIGHTS

The Committee, either at the time of grant or at the time of exercise of any Option or tandem Share Appreciation Right, may provide for a supplemental payment (the "Supplemental Payment") by the Company to the optionee with respect to the exercise of any Option or tandem Share Appreciation Right. The Supplemental Payment shall be in the amount specified by the Committee, which shall not exceed the amount necessary to pay the income tax payable to the national government with respect to both exercise of the Option or tandem Share Appreciation Right and receipt of the Supplemental Payment, assuming the optionee is taxed at the maximum effective income tax rate applicable thereto. The Committee shall have the discretion to grant Supplemental Payments that are payable solely in cash or Supplemental Payments that are payable in cash, Ordinary Shares, or a combination of both, as determined by the Committee at the time of payment. The Supplemental Payment shall be paid within 30 days of the date of exercise of an Option or Share Appreciation Right (or, if later, within 30 days of the date on which income is recognized for federal income tax purposes with respect to such exercise).

2.5 STATUTORY OPTIONS

Subject to the limitations on Option terms set forth in Section 2.1, the Committee shall have the authority to grant (i) incentive stock options within the meaning of Section 422 of the Code and (ii) Options containing such terms and conditions as shall be required to qualify such Options for preferential tax treatment under the Code as in effect at the time of such grant. Options granted pursuant to this Section 2.4 may contain such other terms and conditions permitted by Article II of this Plan as the Committee, in its discretion, may from time to time determine (including, without limitation, provision for Share Appreciation Rights and Supplemental Payments), to the extent that such terms and conditions do not cause the Options to lose their preferential tax treatment. To the extent the Code and Regulations promulgated thereunder require a plan to contain specified provisions in order to qualify options for preferential tax treatment, such provisions shall be deemed to be stated in this Plan.

III. RESTRICTED ORDINARY SHARES

3.1 TERMS AND CONDITIONS OF RESTRICTED ORDINARY SHARES AWARDS

Subject to the following provisions, all awards of Restricted Ordinary Shares under the Plan to employees of the Company and its Subsidiaries shall be in such form and shall have such terms and conditions as the Committee, in its discretion, may from time to time determine.

(a) The Restricted Ordinary Shares award shall specify the number of Restricted Ordinary Shares to be awarded, the price, if any, to be paid by the recipient of the

Restricted Ordinary Shares, and the date or dates on which the Restricted Ordinary Shares will vest. The vesting of Restricted Ordinary Shares may be conditioned upon the completion of a specified period of service with the Company or its Subsidiaries, upon the attainment of specified performance goals, or upon such other criteria as the Committee may determine in its sole discretion.

(b) Share certificates representing the Restricted Ordinary Shares granted to an employee shall be registered in the employee's name. Such certificates shall either be held by the Company on behalf of the employee, or delivered to the employee bearing a legend to restrict transfer of the certificate until the Restricted Ordinary Shares have vested, as determined by the Committee. The Committee shall determine whether the employee shall have the right to vote and/or receive dividends on the Restricted Ordinary Shares before they have vested. No Restricted Ordinary Shares may be sold, transferred, assigned, or pledged by the employee until they have vested in accordance with the terms of the Restricted Ordinary Shares award. In the event of an employee's termination of employment before all of his Restricted Ordinary Shares have vested, or in the event other conditions to the vesting of Restricted Ordinary Shares have not been satisfied prior to any deadline for the satisfaction of such conditions set forth in the award, the Restricted Ordinary Shares which have not vested shall be forfeited and any purchase price paid by the employee shall be returned to the employee. At the time Restricted Ordinary Shares vest (and, if the employee has been issued legended certificates of Restricted Ordinary Shares, upon the return of such certificates to the Company), a certificate for such vested shares shall be delivered to the employee (or the Beneficiary designated by the employee in the event of death), free of all restrictions.

(c) Notwithstanding the vesting conditions set forth in the Restricted Ordinary Shares award, (i) the Committee may in its discretion accelerate the vesting of Restricted Ordinary Shares at any time, and (ii) all Restricted Ordinary Shares shall vest upon a Change of Control of the Company.

3.2 PERFORMANCE AWARDS UNDER SECTION 162(M) OF THE CODE

The Committee shall have the right to designate awards of Restricted Ordinary Shares as "Performance Awards." Notwithstanding any other provisions of this Article III, awards so designated shall be granted and administered in a manner designed to preserve the deductibility of the compensation resulting from such awards in accordance with Section 162(m) of the Code. The grant or vesting of a Performance Award shall be subject to the achievement of performance objectives (the "Performance Objectives") established by the Committee based on one or more of the following criteria, in each case applied to the Company on a consolidated basis and/or to a business unit, and either as an absolute measure or as a measure of comparative performance relative to a peer group of companies: sales, operating profits, operating profits before interest expense and taxes, net earnings, earnings per share, return on equity, return on assets, return on invested capital, total shareholder return, cash flow, debt to equity ratio, market share, share price, economic value added, and market value added.

The Performance Objectives for a particular Performance Award relative to a particular fiscal year shall be established by the Committee in writing no later than 90 days after the beginning of such year. The Committee shall have the authority to determine whether the Performance Objectives and other terms and conditions of the award are satisfied, and the Committee's determination as to the achievement of Performance Objectives relating to a Performance Award shall be made in writing. The Committee shall have discretion to modify or waive the Performance Objectives or conditions to the grant or vesting of a Performance Award only to the extent that the exercise of such discretion would not cause the Performance Award to fail to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code.

3.3 SUPPLEMENTAL PAYMENT ON VESTING OF RESTRICTED ORDINARY SHARES

The Committee, either at the time of grant or at the time of vesting of Restricted Ordinary Shares, may provide for a Supplemental Payment by the Company to the employee in an amount specified by the Committee which shall not exceed the amount necessary to pay the federal income tax payable with respect to both the vesting of the Restricted Ordinary Shares and receipt of the Supplemental Payment, assuming the employee is taxed at the maximum effective federal income tax rate applicable thereto and has not elected to recognize income with respect to the Restricted Ordinary Shares before the date such Restricted Ordinary Shares vest. The Supplemental Payment shall be paid within 30 days of each date that Restricted Ordinary Shares vest. The Committee shall have the discretion to grant Supplemental Payments that are payable solely in cash or Supplemental Payments that are payable in cash, Ordinary Shares, or a combination of both, as determined by the Committee at the time of payment.

IV. SHARE OPTIONS OR FREESTANDING SHARE APPRECIATION RIGHTS FOR DIRECTORS

4.1 GRANT OF OPTIONS OR FREESTANDING SRS

Each person who becomes an Eligible Director (other than a person who first becomes an Eligible Director on the date of an annual meeting of the Company's shareholders) shall be granted, effective as of the date such person becomes an Eligible Director, (i) an Option to purchase 4,000 Ordinary Shares (the "Initial Option"), if such person is not then residing in Norway, or (ii) a freestanding SAR with respect to 4,000 Ordinary Shares (the "Initial SAR"), if such person is then residing in Norway. Each person who is or becomes an Eligible Director on the date of an annual meeting of the Company's shareholders and whose service on the Board of Directors will continue after such meeting shall be granted, effective as of the date of such meeting, (i) an Option to purchase 6,000 Ordinary Shares (the "Annual Option"), if such person is not then residing in Norway, or (ii) a freestanding SAR with respect to 6,000 Ordinary Shares (the "Annual SAR"), if such person is then residing in Norway.

4.2 TERMS AND CONDITIONS OF OPTIONS

Each Option granted under this Article shall have the following terms and conditions:

(a) Option Price. The option price per share shall be the closing sales price of an Ordinary Share on the date the Option is granted (or, if the Ordinary Shares are not traded on such date, on the immediately preceding date on which the Ordinary Shares are traded).

(b) Term of Option. Each Option shall expire ten years from the date of grant, except as provided in Section 4.2(c) with respect to the death of an optionee. No Option shall be exercised after the expiration of its term.

(c) Exercise of Options. Subject to Section 4.2(g) and the remainder of this paragraph, the Initial Option shall become exercisable in installments as follows: (1) a total of 1,333 Ordinary Shares may be purchased through exercise of the Initial Option on or after the first anniversary of the date of grant; (2) a total of 2,666 Ordinary Shares may be purchased through exercise of the Initial Option on or after the second anniversary of the date of grant; and (3) a total of 4,000 Ordinary Shares may be purchased through exercise of the Initial Option on or after the third anniversary of the date of grant. Subject to Section 4.2(g) and the remainder of this paragraph, the Annual Option shall become exercisable in installments as follows: (1) a total of 2,000 Ordinary Shares may be purchased through exercise of the Annual Option on or after the first anniversary of the date of grant; (2) a total of 4,000 Ordinary Shares may be purchased through exercise of the Annual Option on or after the second anniversary of the date of grant; and (3) a total of 6,000 Ordinary Shares may be purchased through exercise of the Annual Option on or after the third anniversary of the date of grant. If a Participant ceases to be a Director of the Company as a result of death, disability, or retirement from the Board of Directors on his Retirement Date (as defined in Section 4.2(i)), each Option shall immediately become fully exercisable and shall remain exercisable for the remainder of its term, except that an Option which is outstanding on the date of an optionee's death shall remain outstanding and exercisable for a term of the greater of ten years from the date of grant or one year after the optionee's death. If a Participant ceases to be a Director of the Company for any reason not set forth in the preceding sentence, no additional portions of the Option will become exercisable, and the portion of the Option that is then exercisable shall expire if not exercised within 60 days after cessation of service as a Director. An Option may be exercised in accordance with its terms as to any or all shares purchasable thereunder.

(d) Payment for Shares. Payment for shares as to which an Option is exercised shall be made in cash, Ordinary Shares, by "cashless exercise," or a combination thereof, in the discretion of the Participant. Ordinary Shares delivered in payment of the Option price shall be valued at the average of the high and low prices of such Shares on the date of exercise (or, if the Ordinary Shares are not traded on such date, at the weighted average of the high and low prices on the nearest trading dates before and after such date).

(e) Nontransferability of Options. No Option or any interest therein shall be transferable by the Participant other than by will or by the laws of descent and distribution.

During a Participant's lifetime, all Options shall be exercisable only by such Participant or by the guardian or legal representative of the Participant.

(f) Shareholder Rights. The holder of an Option shall, as such, have none of the rights of a shareholder.

(g) Change of Control. Notwithstanding any other provisions of the Plan, upon the occurrence of a Change of Control (as defined in Section 6.10) all Options outstanding at the time of such Change of Control shall become immediately exercisable and shall remain exercisable for the remainder of their term.

(h) Tax Status. The Options granted under this Article shall be "non-qualified" options, and shall not be incentive stock options as defined in Section 422 of the Code.

(i) Retirement Date. For purposes of this Article, a Participant's Retirement Date shall mean the date on which the Participant shall be required to retire from the Board of Directors under the retirement policies of the Board of Directors as in effect on the date of the Participant's retirement.

4.3 TERMS AND CONDITIONS OF FREESTANDING SHARE APPRECIATION RIGHTS

Each Freestanding Share Appreciation Right granted under this Article shall have the following terms and conditions:

(a) Base Price and Appreciation. The base price of the SAR shall be the closing sales price of an Ordinary Share on the date the SAR is granted (or, if the Ordinary Shares are not traded on such date, on the immediately preceding date on which the Ordinary Shares are traded). Upon exercise of an SAR, the holder shall receive, for each share with respect to which the SAR is exercised, an amount (the "Appreciation") equal to the amount by which the fair market value of an Ordinary Share on the date of exercise of the SAR exceeds the base price of the SAR. For purposes of the preceding sentence, the fair market value of an Ordinary Share shall be the average of the high and low prices of such share as reported on the New York Stock Exchange composite tape. The Appreciation shall be payable in cash and shall be paid within 30 days of the exercise of the SAR.

(b) Term of SAR. Each SAR shall expire ten years from the date of grant, except as provided in Section 4.3(c) with respect to the death of a Participant. No SAR shall be exercised after the expiration of its term.

(c) Exercise of SARs. Subject to Section 4.3(f) and the remainder of this paragraph, the Initial SAR shall become exercisable in installments as follows: (1) the Initial SAR shall be exercisable with respect to a total of 1,333 Ordinary Shares on or after the first anniversary of the date of grant; (2) the Initial SAR shall be exercisable with respect to a total of 2,666 Ordinary Shares on or after the second anniversary of the date of grant; and (3) the Initial SAR shall be exercisable with respect to a total of 4,000 Ordinary Shares on or after the third anniversary of the date of grant. Subject to Section 4.3(f) and the remainder of this paragraph, the Annual SAR shall become exercisable in installments as

follows: (1) the Annual SAR shall be exercisable with respect to a total of 2,000 Ordinary Shares on or after the first anniversary of the date of grant; (2) the Annual SAR shall be exercisable with respect to a total of 4,000 Ordinary Shares on or after the second anniversary of the date of grant; and (3) the Annual SAR shall be exercisable with respect to a total of 6,000 Ordinary Shares on or after the third anniversary of the date of grant. If a Participant ceases to be a Director of the Company as a result of death, disability, or retirement from the Board of Directors on his Retirement Date (as defined in Section 4.2(i)), each SAR shall immediately become fully exercisable and shall remain exercisable for the remainder of its term, except that notwithstanding the term of the SAR, an SAR which is outstanding on the date of a Participant's death shall remain outstanding and exercisable for a term of the greater of ten years from the date of grant or one year after the Participant's death. If a Participant ceases to be a Director of the Company for any reason not set forth in the preceding sentence, no additional portions of the SAR will become exercisable, and the portion of the SAR that is then exercisable shall expire if not exercised within 60 days after cessation of service as a Director. An SAR may be exercised in accordance with its terms in whole or in part.

(d) Nontransferability of SARs. No SAR or any interest therein shall be transferable by the Participant other than by will or by the laws of descent and distribution. During a Participant's lifetime, all SARs shall be exercisable only by such Participant or by the guardian or legal representative of the Participant.

(e) Shareholder Rights. The holder of an SAR shall, as such, have none of the rights of a shareholder.

(f) Change of Control. Notwithstanding any other provisions of the Plan, upon the occurrence of a Change of Control (as defined in Section 6.10) all SARs outstanding at the time of such Change of Control shall become immediately exercisable and shall remain exercisable for the remainder of their term.

(g) Special Provisions. Notwithstanding the foregoing provisions of Section 4.3, the freestanding SARs granted to Eligible Directors residing in Norway who were first elected to the Board of Directors in 1996 (and who waived the grant of an Option to which they were then entitled under the terms of the Plan as then in effect) with respect to their initial election to the Board of Directors (i) shall have a base price equal to the closing sales price of the Ordinary Shares on the date of their initial election, and (ii) shall have exercise and expiration dates determined as if such SARs had been granted on the date of their initial election.

4.4 SUPPLEMENTAL PAYMENT ON EXERCISE OF PRIOR AWARDS OF OPTIONS OR SARs

(a) Supplemental Payments. Within 30 days of each date that an Option or SAR granted prior to the date of this Amendment and Restatement is exercised, a Supplemental Payment shall be paid to the Participant (or to the Participant's Beneficiary in the event of death), in cash, in an amount equal to the amount necessary to pay the income tax payable to the national government where the Director resides with respect to both the exercise of such Option or SAR and receipt of the Supplemental Payment, assuming the

Participant is taxed at the maximum effective income tax rate applicable thereto; provided, however, that no such payment shall be made if the Participant has waived his right to the payment pursuant to Section 4.4(b).

(b) Waiver. The Committee may grant an additional Option or SAR, as applicable, to any Participant who agrees in writing to waive the right to receive a supplemental cash payment under Section 4.4(a). Such Option or SAR shall be immediately exercisable. All other provisions of Section 4.2 or 4.3 will apply as though the date of acceptance of the Option or SAR were the date of grant. Notwithstanding the foregoing, however, in no event shall (i) the number of Ordinary Shares subject to this Section 4.4(b) exceed 50,000, or (ii) the number of SARs subject to this Section 4.4(b) exceed 50,000.

V. CASH PERFORMANCE AWARDS

5.1 TERMS AND CONDITIONS OF CASH PERFORMANCE AWARDS

A "Cash Award" is a cash bonus paid solely on account of the attainment of one or more objective performance goals that have been preestablished by the Committee. Each Cash Award shall be subject to such terms and conditions, restrictions and contingencies, if any, as the Committee shall determine. Restrictions and contingencies limiting the right to receive a cash payment pursuant to a Cash Award shall be based on the achievement of single or multiple performance goals over a performance period established by the Committee. No employee shall receive Cash Awards during any calendar year aggregating in excess of \$1 million.

5.2 PERFORMANCE OBJECTIVES UNDER SECTION 162(M) OF THE CODE

The Committee shall have the right to designate Cash Awards as "Cash Performance Awards." Notwithstanding any other provisions of this Article V, awards so designated shall be granted and administered in a manner designed to preserve the deductibility of the compensation resulting from such awards in accordance with Section 162(m) of the Code. The payment of a Cash Performance Award shall be subject to the achievement of performance objectives (the "Performance Objectives") established by the Committee based on one or more of the following criteria, in each case applied to the Company on a consolidated basis and/or to a business unit, and either as an absolute measure or as a measure of comparative performance relative to a peer group of companies: sales, operating profits, operating profits before interest expense and taxes, net earnings, earnings per share, return on equity, return on assets, return on invested capital, total shareholder return, cash flow, debt to equity ratio, market share, share price, economic value added, and market value added.

The Performance Objectives for a particular Cash Performance Award relative to a particular fiscal year shall be established by the Committee in writing no later than 90 days after the beginning of such year. The Committee shall have the authority to determine whether the Performance Objectives and other terms and conditions of the award are

satisfied, and the Committee's determination as to the achievement of Performance Objectives relating to a Cash Performance Award shall be made in writing.

VI. ADDITIONAL PROVISIONS

6.1 GENERAL RESTRICTIONS

Each award under the Plan shall be subject to the requirement that, if at any time the Committee shall determine that (i) the listing, registration or qualification of the Ordinary Shares subject or related thereto upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any government regulatory body, or (iii) an agreement by the recipient of an award with respect to the disposition of Ordinary Shares is necessary or desirable (in connection with any requirement or interpretation of any federal or state securities law, rule or regulation) as a condition of, or in connection with, the granting of such award or the issuance, purchase or delivery of Ordinary Shares thereunder, such award may not be consummated in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Committee.

6.2 ADJUSTMENTS FOR CHANGES IN CAPITALIZATION

In the event of a scheme of arrangement, reorganization, recapitalization, Ordinary Share split, Ordinary Share dividend, combination of shares, rights offer, liquidation, dissolution, merger, consolidation, spin-off, sale of assets, payment of an extraordinary cash dividend, or any other change in or affecting the corporate structure or capitalization of the Company, the Committee shall make appropriate adjustment in the number and kind of shares authorized by the Plan (including any limitations on individual awards), in the number, price or kind of shares covered by the awards and in any outstanding awards under the Plan; provided, however, that no such adjustment shall increase the aggregate value of any outstanding award.

6.3 AMENDMENTS

(a) The Board of Directors may amend the Plan from time to time. No such amendment shall require approval by the shareholders unless shareholder approval is required to satisfy Rule 16b-3 under the Securities Exchange Act of 1934 or Section 162(m) of the Code, or by applicable law or Stock exchange requirements.

(b) The Committee shall have the authority to amend any grant to include any provision which, at the time of such amendment, is authorized under the terms of the Plan; however, no outstanding award may be revoked or altered in a manner unfavorable to the holder without the written consent of the holder.

(c) If a Participant has ceased or will cease to be a Director of the Company for the convenience of the Company (as determined by the Board of Directors), the Board of Directors may amend all or any portion of such Participant's Options or SARs so as to make such Options or SARs fully exercisable and/or specify a schedule upon which they

become exercisable, and/or permit all or any portion of such Options or SARs to remain exercisable for such period designated by it, but not beyond the expiration of the term established pursuant to Section 4.2(b) or 4.3(b). A Participant shall not participate in the deliberations or vote by the Board of Directors under this paragraph with respect to his Options or SARs. The exercise periods of Options or SARs established by the Board of Directors pursuant to this paragraph shall override the provisions of Section 4.2(c) or 4.3(c) to the extent inconsistent therewith.

6.4 CANCELLATION OF AWARDS

Any award granted under Articles II and III of the Plan may be canceled at any time with the consent of the holder and a new award may be granted to such holder in lieu thereof, which award may, in the discretion of the Committee, be on more favorable terms and conditions than the canceled award; provided, however, that the Committee may not reduce the exercise or base price of outstanding Options or SARs where the existing exercise or base price is higher than the then current market price of the Ordinary Shares.

6.5 BENEFICIARY

An employee or Participant may file with the Company a written designation of Beneficiary, on such form as may be prescribed by the Committee, to receive any Options, SARs, Restricted Shares, Ordinary Shares and Supplemental Payments that become deliverable to the employee or Participant pursuant to the Plan after the employee's or Participant's death. An employee or Participant may, from time to time, amend or revoke a designation of Beneficiary. If no designated Beneficiary survives the employee or Participant, the executor or administrator of the employee's or Participant's estate shall be deemed to be the employee's or Participant's Beneficiary.

6.6 WITHHOLDING

(a) Whenever the Company proposes or is required to issue or transfer Ordinary Shares under the Plan, the Company shall have the right to require the award holder to remit to the Company an amount sufficient to satisfy any applicable withholding tax liability prior to the delivery of any certificate for such shares. Whenever under the Plan payments are to be made in cash, such payments shall be net of an amount sufficient to satisfy any withholding tax liability.

(b) An employee entitled to receive Ordinary Shares under the Plan who has not received a cash Supplemental Payment may elect to have the withholding tax liability (or a specified portion thereof) with respect to such Ordinary Shares satisfied by having the Company withhold from the shares otherwise deliverable to the employee Ordinary Shares having a value equal to the amount of the tax liability to be satisfied with respect to the Ordinary Shares. An election to have all or a portion of the tax liability satisfied using Ordinary Shares shall comply with such requirements as may be imposed by the Committee.

6.7 NON-ASSIGNABILITY

Except as expressly provided in the Plan, no award under the Plan shall be assignable or transferable by the holder thereof except by will or by the laws of descent and distribution. During the life of the holder, awards under the Plan shall be exercisable only by such holder or by the guardian or legal representative of such holder.

6.8 NON-UNIFORM DETERMINATIONS

Determinations by the Committee under the Plan (including, without limitation, determinations of the persons to receive awards under Articles II and III; the form, amount and timing of such awards; the terms and provisions of such awards and the agreements evidencing same; and provisions with respect to termination of employment) need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, awards under the Plan, whether or not such persons are similarly situated.

6.9 NO GUARANTEE OF EMPLOYMENT OR DIRECTORSHIP

The grant of an award under the Plan shall not constitute an assurance of continued employment for any period or any obligation of the Board of Directors to nominate any Director for re-election by the Company's shareholders.

6.10 CHANGE OF CONTROL

A "Change of Control" means:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (i) the then outstanding ordinary shares of the Company (the "Outstanding Company Ordinary Shares") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation or other entity controlled by the Company or (iv) any acquisition by any corporation or other entity pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 6.10; or

(b) Individuals who, as of the date hereof, constitute the Board of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of the Company; provided, however, that for purposes of this Section 6.10 any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any

such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of the Company; or

(c) Consummation of a scheme of arrangement, reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Ordinary Shares and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding ordinary shares or shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation or other entity resulting from such Business Combination (including, without limitation, a corporation or other entity which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Ordinary Shares and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any corporation or other entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation or other entity resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding ordinary shares or shares of common stock of the corporation or other entity resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation or other entity except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the action of the Board of the Company providing for such Business Combination; or

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

6.11 DURATION AND TERMINATION

(a) The Plan shall be of unlimited duration. Notwithstanding the foregoing, no incentive Share option (within the meaning of Section 422 of the Code) shall be granted under the Plan after May 1, 2013, but awards granted prior to such dates may extend beyond such dates, and the terms of this Plan shall continue to apply to all awards granted hereunder.

(b) The Board of Directors may discontinue or terminate the Plan at any time. Such action shall not impair any of the rights of any holder of any award outstanding on the date of the Plan's discontinuance or termination without the holder's written consent.

6.12 EFFECTIVE DATE

The Plan was originally effective May 1, 1993. The Plan was amended and restated effective March 13, 1997, March 12, 1998 and January 1, 2000. This amendment and restatement of the Plan was adopted by the Compensation Committee of the Board of Directors effective May 8, 2003, and the extension of the period during which incentive Share options may be granted and the indefinite extension of the right to grant Options and SARs to Eligible Directors was approved by the holders of a majority of issued and outstanding Ordinary Shares at the general shareholders' meeting held on the date hereof.

IN WITNESS WHEREOF, this document has been executed effective as of May 8, 2003.

TRANSOCEAN INC.

By: /s/ Eric B. Brown

Eric B. Brown
Senior Vice President, General
Counsel & Corporate Secretary

I, Robert L. Long, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Transocean Inc.,
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2003

/s/ Robert L. Long

Robert L. Long
President and Chief Executive
Officer

I, Gregory L. Cauthen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Transocean Inc.,
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2003

/s/ Gregory L. Cauthen

Name: Gregory L. Cauthen
Senior Vice President and
Chief Financial Officer

CERTIFICATION PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002 (SUBSECTIONS (A) AND (B)
OF SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Robert L. Long, President and Chief Executive Officer of Transocean Inc., a Cayman Islands corporation (the "Company"), hereby certify, to my knowledge, that:

- (1) the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2003

/s/ Robert L. Long

Name: Robert L. Long

President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to Transocean Inc. and will be retained by Transocean Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002 (SUBSECTIONS (A) AND (B))
OF SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Gregory L. Cauthen, Senior Vice President and Chief Financial Officer of Transocean Inc., a Cayman Islands corporation (the "Company"), hereby certify, to my knowledge, that:

- (1) the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2003

/s/ Gregory L. Cauthen

Name: Gregory L. Cauthen
Senior Vice President and
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to Transocean Inc. and will be retained by Transocean Inc. and furnished to the Securities and Exchange Commission or its staff upon request.