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MANAGEMENT DISCUSSION SECTION

Operator: Grab your seat and move forward this morning. Next up on the list is GlobalSantaFe. We have Matt Ralls, the CFO up here, along with Richard, who – if you guys have been talking to our people, he is definitely a good guy to talk to because he has been out there and knows what's going on. I've found him to be extremely helpful over the years, and he is also very pleasant at dinner too, so thanks for coming Richard. Thanks Matt. You know, GlobalSantaFe, as you guys are all aware, has had a, what I would call relatively unexciting year in '03, as – at least from our perspective and Aaron can speak to this, because it just seemed like every time you turned around the numbers were coming down. But it seems like we are turning a corner here. We have heard a lot of positive comments from some of the other guys about the outlook, internationally, and that's this guys bread and butter. So we will let them tell us how good things look and how long it's going to take to get back to the Promised Land.

Matt Ralls, CFO

Okay. Thank you, Ken. Feedback. Is this mike working now? Okay. Well, good morning everybody, and thanks, Ken, for inviting us. I will be making some forward-looking statements in my presentation this morning; I refer you to our filed SEC filings for the risks that may be involved and the accuracy of those statements. The presentation I am going to make this morning is really in three parts, not withstanding Ken's introduction. We don't intend to go market-by-market, although we will certainly respond to any questions afterwards on that subject. But basically what we want to do is give you an overview of the way we see the world's – the macro market for the world's oil and gas markets, try to translate that into some 2004 and beyond E&P spending trends and then give you some specifics about the company.

Since the beginning of the industrial age, there has been a pretty clear link established between GDP per capita and energy per capita in the world's various economies. And at the lower end of the scale on GDP per capita – am I getting the echo out there as well? Okay, I might turn this down just a little bit - but anyway the lower end of the scale on GDP per capita, obviously those countries don't have the energy intensity that more highly industrialized companies do – countries do. And just to look at that a little bit differently. If we look at China with a GDP per capita of $1,400, they have an energy consumption per 1,000 people of about 19 barrels per day of oil equivalent. Brazil on the other hand with an economy about three times in size in terms of GDP per capita consumes about 23 barrels per day of oil equivalent. And we in the United States at $40,000 per capita GDP consume about 166 or about 8 times per capita per 1,000 that China does. Now, what we are trying to demonstrate with this slide clearly is that is these lesser-developed economies move toward more industrialization, try to improve their standard of living to match those of the more western countries. We're clearly going to see increasing demand with regard to not only their activity levels, but the intensity of the energy consumption as they industrialize.

Looking specifically at China, this chart shows you the year-on-year demand growth, so what we are really looking at is a rate of change of oil demand for China, so essentially an acceleration in demand. And if you look at the 2004 estimates out here, the estimate is that 2004 world oil demand

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growth in China will be at a rate that's roughly twice what it was for the 90s. So clearly, we are going to see in an economy as big as China, an increasing influence on the world's oil market and in fact China is already arguably one of the most significant influences or impacts on world oil and supply and demand balance.

So let's translate that into what we think that means for future demand and what the oil companies have to do in order to find the kind of reserves and replace the production. And if you look at the last 20 years and actually the stream goes back probably 30 years if we would have wrapped it further back, but there's been a very clear trend of about a 1-1.5% increase in world oil and world oil demand over that period of time. And if we extrapolate that out it's a roughly 1.6% trend that we have seen recently. And then take into account an existing fuel decline of about 5%, that means that in the next 20 years or so the industry has to find another 70 million barrels a day of production that doesn't exist currently.

Now, this is not a new problem, it's a situation that has existed at every point along this curve. But because of existing, either overcapacity in production, which has reduced overtime or because of all the money that's been spent in this industry, we have managed to keep pushing the wedge out and that will always be the case. But it underlies the importance of the – or the necessity of increased spending by our client base. Now I do want to point out, first of all, this doesn't take into account the acceleration of the Chinese or Indian or South American economies that as they industrialize more we believe there will be pressure on this number. And let me say that while you can debate it I think that 5% number is probably a hopelessly optimistic number in terms of how great the existing fuel decline might be and taking the UK as an example, as investment has dropped off there the decline rate in the UK is easily over 10% currently. So, while you can argue about what either of these numbers is there is very clearly a very significant impact in terms of the amount of production that has to be found, and even if you take – split that $70 million and say that world oil demand doesn't grow at all there is still two-thirds of that number that comes just from existing fuel decline.

This is an estimate that we got from one our customers and reflects our own feelings on it. But not only are we are going to see that kind of growth and the necessity for additional exploration for oil, but clearly the same thing is going to be happening with gas and to a lesser extent, coal and the other sources of energy. But it's really these two we believe over the next 20 years that will make up the increased availability of hydrocarbons to meet world energy demands.

So, how does that translate into E&P spending? Well this is a Brand X survey here but it does show you the history. Again this is year-over-year change, so it's a rate of growth slide, but you can see that the change in or the increase in capital spending in this industry fell off pretty sharply in '02, made a little bit of a recovery in '03, and according to their estimates would be around 4% or 5% in '04. Our hosts today have a little different view of it, which is one closer to the one that we share. And by their estimates in this 2003 study, they had a best guess of about 8% increase in E&P spending. That being their guess of where it would come out in this 3-11% range. And as you look at this, it is significant to note that while the integrated oils are showing an increase of 0-5% they are by far the biggest piece of pie, so their actual experience will heavily influence what happens down here. But I understand Ken that you guys have updated that now to a 10% number for spending. And it's certainly consistent with our experience that particularly if you go into a year with strong commodity prices you tend to see higher than anticipated spending from the client base. We agree with this not just based on the fact that Ken is our host today or because it's a better answer for us, but in looking back at the historical relationships between commodity prices, cash flows and CapEx.

And in this case we are going to break it down by in the first couple of slides by independence, in the next – in the couple of slides later by majors. But you can see there is, – well actually, I apologize, these colors are very close the yellow and green - but the yellow is the CapEx that's this squares here, green is the commodity price, which for independents tends to be the commodity that

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their most concentrated in, and the red being cash flow. So you can see the relationship between how spending reacts to changes in commodity prices, from the constant change in cash flow for these companies. And for independents there is a pretty tight relationship historically and not much of a lag factor. We've always known that independents tend to react very quickly to changes in commodity prices and the impact on their cash flow. But you can see there has been a tight relationship up until 2003 when there was a substantial gap that developed as CapEx did not keep pace with the strong improvement we saw in cash flow and natural gas prices. And if we turn that into a reinvestment rate, generally speaking over the last ten years the reinvestment for independents has been around 94%. That fell to about 71% in 2003, so it's not much of a leap of faith in our opinion to expect that there will be a pretty strong recovery in terms of their reinvestment of their available cash flow, not to mention very possibly a strong performance on their cash flow based on the commodity prices we are seeing currently.

If we look at it from major oil, major – super major stand-point, there is a little bit of a different picture here in that majors don't tend to spend as much of their cash flow, which we'll see in next reinvestment slide. But there is apparently something of a lag, usually about a year between say a change in cash flow, related change in commodity prices and then the change about a year later in CapEx. So there is always been a fairly good – if you look back even further you could see a pretty consistent trend in terms of the 6 months to a one year lag. That seems to have changed over the last couple of years and if you actually take – I guess that was the reaction to the Economist's article there, but if you, sort of, ignore this little down dip, there has been a pretty steady trend. We think that's generally consistent with the conversations we are having with our major oil company clients. We also think it's generally pretty good for our industry, and it's consistent with the fact that the majors have stronger balance sheets, better availability of capital, and really are not required to respond as quickly to changes in commodity prices. But in spite of the strong move we saw here, and the significant dip we saw there, there has been more of a consistent trend in capital spending for majors. And again, with regard to their reinvestment rate, which is much lower, at around 65%, than you see for the independents, the 2003 reinvestment rate fell below that line. And we would expect consistent with Ken's estimate of the spending for 2003, that we will see a recovery in their reinvestment rate. And all that sort of underpins our view that we are going to continue to see significant reinvestment and utilization of our equipment.

And this is ODS-Petrodata's analysis of the world rig markets, and they are projecting that we will see rig demand in 2004 that's essentially equivalent to what we saw in 1997, which you all know is probably the best year in the history of this industry. Now, that's good news, unfortunately there are more rigs than there were in 1997, so the utilization figure has not quite caught up and we are looking at a number that's arguably around 80% utilization for the worldwide fleet.

Translating this into jackups, though, while we are not seeing quite the same absolute demand, we are expecting utilization in jackups to hit somewhere near the 85% range in 2004. And it's even a better story for companies like GlobalSantaFe that are concentrated in the premium end of the equipment because a significant amount of that availability in the last 15% of unutilized equipment is going to be in the lower spec equipment. So, we are expecting very high utilization rates around the world for our equipment.

One of the other sell-side firms has put out an estimate of, or I guess a view of, how they see the North Sea market for 2004, and this, of course, is one of the more important markets for GlobalSantaFe. But their projection is that that market for jackups will tighten to 100% utilization. And we share that view. It's based, kind of, on the inquiries we see now. But if you look at their visible tenders at the start, of those 10, several of those are in the heavy-duty harsh environment end of the business, which happens to be a bigger – a significant part of our fleet of jackups in the North Sea market. And we think that's doubly positive for us, one, in that we do expect that we are going to be able to take our HDHE equipment, which has been competing in the southern North Sea gas markets, the standard equipment at lower day rates; put those back to work in HDHE higher spec jobs, which will not only improve our cash flow and utilization from those rigs, but also

help tighten the standard rig markets in southern North Sea. So, we are expecting that we will see a much better rig picture for jackups in the North Sea for 2004 and hopefully for 2005 and beyond that.

Now, I do have to caveat the fact that the visibility on HDHE jackup work tends to be 6-12 months. So, we can't say unequivocally that we expect that trend to carry into 2005, but that's our sense of it. Now, this doesn't really discuss the semi-market in the North Sea and that continues to be weak and we expect that to be the case throughout '04 and well into 2005. But that view of the jackup market is important to us because I want to make clear, while we do – one of our strategies is to have a balanced fleet of premium equipment, we do in fact have 45 of our currently available 59 rigs that are jackups around the world. So, what happens in the world's jackup markets is very important to GlobalSantaFe.

Here is just a quick snapshot of where we are in the world. GlobalSantaFe is in virtually every major drilling market in the world. The exception really being the Brazilian market. We don't have much of a presence there although we do have a drill ship that will be down there this summer - or in the fall. But basically we are around the world and in all the major markets. And here's our view of how we see these markets and once again, all this yellow and green tend to run together here, but – and let me clarify to be sure that green is not – doesn't necessarily reflect strong markets although it could. That means that the markets are either steady or improving and as we look around the world at the jackup market, every market that we participant in is either stable or getting better, in some cases they are just strong markets. I just mentioned the North Sea and our more optimistic outlook for that jackup market. In West Africa, we – as of February, we will have all of our rigs back to work in that market. Now, I do need to caveat because the contract rollovers will probably have lower average day rates in 2004 than we did in 2003. But we do expect pricing pressure to shift over to the contractor side of the ledger in 2004. And we are very pleased to announce as we did on the earnings call that we have increased our presence there with two jackup rigs that are going to be moving into Angola on 2.5-year contract with Cabinda Gulf there.

As you look around the world, the Southeast Asian market has been strong, the Middle East has been good, the Gulf of Mexico jackup market has been steadily improving and we expect another good year of improvement in 2004. So that really leaves in terms of the weaker markets, we got some concern about the mid water depth semis in the West Africa. And we do expect a strong market and a lot of demand coming out of the West African ultra deep market, which will help tighten the world's ultra deep rig supply-demand picture. And clearly we have got significant weakness in the North Sea and Gulf of Mexico from mid water depths semis.

GlobalSantaFe has the second largest fleet of offshore drilling units among our 7 peer companies, that does make-up two-thirds of the world's fleet of rigs. We also have the largest fleet of quality jackups. We have 31 of our 46 jackups, and this includes our new builds, one of which is out now and one of which will be coming out next year – excuse me, this spring. But we do have 31 of those that can drill in 300 feet of water depth or more. So we do have the largest fleet and if the TODCO deal gets done we'll have the largest fleet of jackups, period.

We also have the second largest fleet of premium floaters. We are sort of bunched up with a couple of other companies in terms of the numbers of floaters for third place. But if you look at those that are third generation or better units, we do have a significant presence in deep water – in mid water and deep water units.

I think you all are familiar with our new build program. We've got – we've been building two of these Constellation jackups and two Development Driller rigs. The first of the Constellation rigs came out. You all know that we had some disappointments with that, not because of the rig, but because we tried to get on a difficult location in Myanmar and ended up damaging one of the legs. We got to go back to the shipyards. We are doing some repair works on that. But I can tell you that there is a lot of interest in both of these rigs and we are pretty confident that we are going to have good

contracts for those beginning in sort of the late spring timeframe and should have a good contract for the second one in time for its delivery in 2Q '04, second quarter of this year.

In the ultra deep-water development semi market, these are two very capable rigs I think they'll be "The" development tool of choice for all of our operators and I think we have pretty much demonstrated that by the success we had in getting the BP Atlantis work. That's a three year contract, very hotly contested, and the Development Driller II won it, which is a function of availability of that rig to delivery as scheduled for that rig in the first quarter of '05. And we are very hopeful that we will have another contractor talk about for the first Development Driller rig, which is due out mid year this year. We want to just make the point that these rigs are going to add very significantly for the company's pre-tax cash flow. Now these are assumptions. This is not – we can't back these numbers up specifically for you yet, although we feel pretty confident that this represents the current market for this type, the full rigs with these capabilities and certainly the Development Driller II contract is in the mid 180s. But based on that we think that when all these rigs are up and running, they will add comfortably over $100 million a year of pre-tax cash flow to the company's results.

Now, we are delighted to add these new high quality assets to our fleet. As I said before we believe that we have "the" premium fleet of offshore drilling equipment in our peer group. And one of the reasons that we feel strongly about operating premium equipment is not to be in the rig snob category, but because it does deliver for you in weak markets higher utilization and in strong markets higher dayrates. And if you look at our experience through the last couple of years you can see that we have comfortably - with one minor exception, which currently we have some rigs out for upgrades - that we have generally stayed above the worldwide competitive fleet. And we've done it without sacrificing dayrate. If you look at our dayrate, and this includes the lag effect of contract backlog, but if you look at the average market lows and highs for this class of rigs, GlobalSantaFe actually enjoys an average price that's above those levels due to our contract rollover. So we do believe that operating a premium fleet has significant advantages for Santa Fe – for GlobalSantaFe.

One of - not least of which of - those advantages is the fact that we do a lot of work for the majors and super majors and they like this class of equipment. So the consequence, super majors – these top five make up 54% of our total customer base for the 2003 fiscal year, with majors making up roughly another 20%, so three quarters of our business is coming from majors and super majors, which we think is a real plus for a couple of reasons. One is that as we talked earlier, they are the most consistent about their spending patterns, most likely to have longer-term projects and be willing to take on rigs for longer-term contracts. But equally as importantly, the fact that they will pay up for the quality programs that GlobalSantaFe invests in, in terms of the training of our people with safety programs, the amount of money that we spend on our equipment. So that's a very important niche for us, it doesn't mean that we overlook the independents because we do have ten jackups in the Gulf of Mexico, at least until we pull one of those out to go to West Africa. But independents in the Gulf of Mexico and increasingly in the North Sea are a very important part of our customer base.

We are in a very strong position financially. We ended the year with a little under a billion dollars in cash, little over a billion dollars of debt, a little over $4 billion of equity. So we have a total debt to total capitalization of 22%, and on a net basis only 7%. So we feel very good about our position to withstand whatever cycles the market can throw at us although as I indicated, we're more sanguine about the cycle we are headed into from this point forward.

And the obligatory "for me" slide here which says that we have – that you have yet to recognize the value relative to some of our peers. We do trade as a price to the net asset per share that is at low end of our peer group. And I think that given the quality equipment that we have, we should be on a higher end rather than lower end.

So, summing it up then, what it means for you, we have, we believe, strong long-term industry fundamentals and by long-term I don't mean all the way through 2005, I mean that we believe very strongly that this industry and your E&P client or investment industry is going to be a strong business for decades to come. We are very proud of the geographic diversity and the quality of our asset base. We have a very strong high-quality client base, a strong balance sheet, and believe we are undervalued relative to our peers. So with that, Ken, I will turn it back to you to see if there is Q&A.

QUESTION AND ANSWER SECTION

<Q>: If I could ask a question that was very common for the last couple of years, but nobody's asked it yet this year. The industry consolidation, you know, you guys are the merger of Global Marine and Santa Fe, do you still believe that industry consolidation is something that makes sense and do you expect to see more of that in the next few years?

<A – Matt Ralls>: Yeah, we absolutely believe it's something that makes sense. In fact, it's good for the industry and obviously we have participated in some of it in the past. I can tell you that it's very difficult to get these deals done. We were very fortunate with the timing of our deal between Global Marine and Santa Fe. And given the fact that we got it done 10 days before the World Trade Center incident, had we shifted our timings back a couple of weeks, we'd probably still be two separate companies. It's very difficult to get the valuations to line up so that everybody can agree since it's equally difficult to pay a premium in this business because the costs tend to be at rig level, it's hard to get synergies out of these. So, it makes doing a deal harder. And having said that let me say that as the bigger companies get bigger and we are all in the same operating environments around the world, I think the synergies will improve in future deals over – for example, we had where there is very little overlap in our areas of operation.

<Q>: One final question. We've heard from a couple of the other rig operators onshore that they have seen a pickup in activity in Venezuela. What are you guys seeing there and how much risk do you think there is still on the political side there in Venezuela?

<A – Matt Ralls>: Well, I think the political risk will continue at the level it is currently for some time to come, as we understand it. There is potential for a recall election there that Chavez is trying to push back, but very highly likely he will be able to get it pushed back far enough so that even if he loses that, his Vice President will take control. So – as we understand it, we expect Venezuela to be under the same general political management that it is currently. From our perspective, we are seeing an increase in demand. We have put one rig back to work and think that there is a pretty good chance that we could get maybe 2 or 3 others back to work before the end of the year.

<Q>: Could you comment on your outlook for the Middle East land rig fleet in '04?

<A – Matt Ralls>: Yeah, we feel pretty good about that, Paul, I guess in the interest of full disclosure I should say that, you know, we have been looking at whether or not the land rig business for us is going to be a core part of our business. And so, sort of, pending the outcome of that evaluation, we do see – really irrespective the outcome, but we do see that the Middle Eastern market is tightening up some. We're starting to see an improvement in the dayrates and some requests for some pretty good term in a couple of those markets over there. So, generally, we feel optimistic about the land rig business there.

<Q>: All right, thank you guys.

<A – Matt Ralls>: Okay, thanks very much.

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