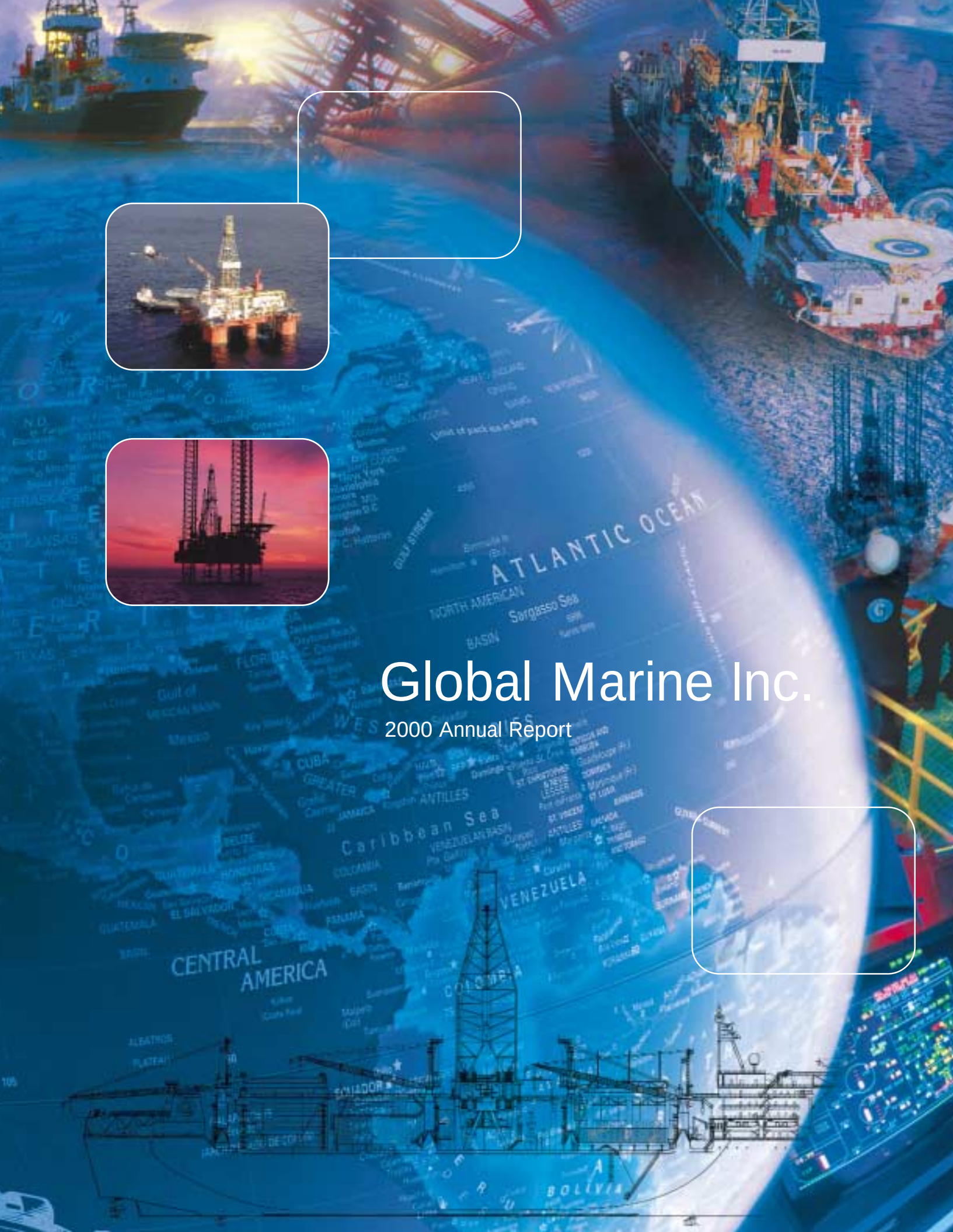


Global Marine Inc.

2000 Annual Report

Glossary of Terms

Drilling Management:	The contractor serves as the outsourced drilling department for the operating company. Drilling management can be remunerated on a turnkey, risk/reward, or dayrate basis.
Drillship:	A ship designed to serve as a self-propelled floating offshore drilling unit.
Dynamic Positioning:	Maintaining a floating drilling rig on location by actuating thrusters via a global positioning satellite system or acoustical beacons located on the sea floor.
E&P:	Exploration and Production.
Jackup:	A mobile, bottom-supported offshore drilling structure with cylindrical or open-truss legs that support the deck and hull. When positioned over the drilling site, the bottoms of the legs rest on the sea floor.
Lost-Time Incident:	A work-related injury that prevents a person from returning to work for his or her next scheduled tour of duty.
OPEC:	The Organization of Petroleum Exporting Countries include the following 11 countries: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela. These countries produce about 40% of the world's oil and hold more than 77% of the world's proven oil reserves.
Semisubmersible:	A floating offshore drilling unit with pontoons and columns that, when flooded, cause the unit to partially submerge to a predetermined depth.
Turnkey:	To perform a function for a specified price, payable only upon successful completion of the function.
Ultra-Deepwater:	Water depths greater than 5,000 feet.
Well Completion:	After a well has been drilled and evaluated, it is either abandoned or completed. Completion of a well requires perforating production casing, installing production tubing and surface valves, and taking other steps to produce hydrocarbons.

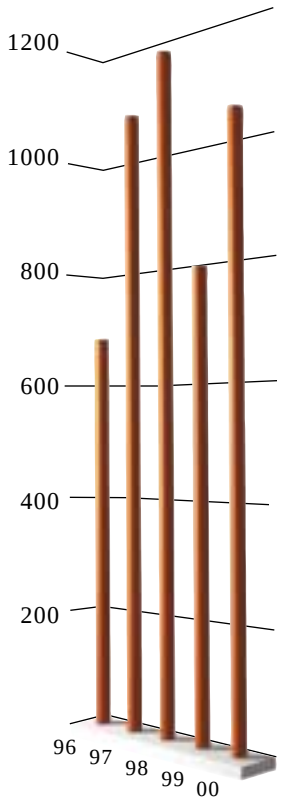
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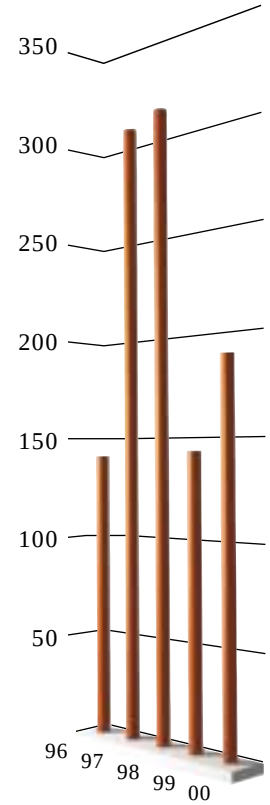
Financial Highlights

(Dollars in millions)	**2000**	1999	1998
For the Year			
Revenues	**$ 1,039.8**	$ 791.0	$ 1,162.2
Net income	**$ 113.9**	$ 89.5	$ 223.3
Capital expenditures	**$ 177.8**	$ 448.1	$ 637.7
Active rig utilization	**84%**	76%	96%
Turnkey wells drilled - worldwide	**122**	76	77
At Year-End			
Cash and cash equivalents	**$ 144.3**	$ 83.3	$ 56.9
Properties and equipment, net	**$ 1,940.1**	$ 1,868.6	$ 1,512.1
Total assets	**$ 2,396.8**	$ 2,264.5	$ 1,971.6
Long-term debt, including current maturities	**$ 901.3**	$ 945.7	$ 750.7
Shareholders' equity	**$ 1,270.9**	$ 1,135.0	$ 1,040.4
Number of active rigs	**33**	31	31

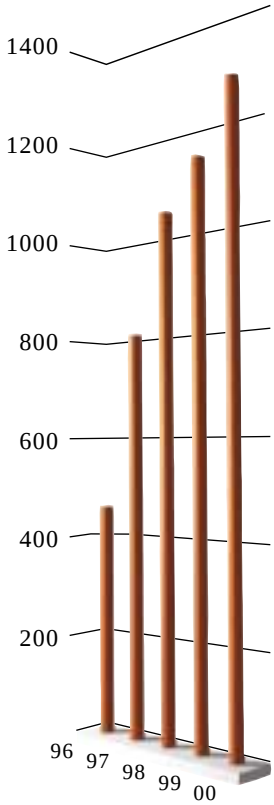
Revenues
($ in millions)



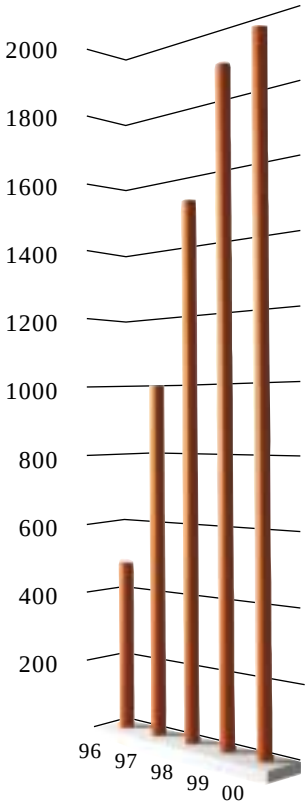
Operating Income
($ in millions)



Shareholders' Equity
($ in millions)



Properties and Equipment, Net
($ in millions)



To My Fellow Shareholders:

In my letter to you last year, I spoke cautiously of a budding recovery in our offshore drilling markets. During 2000, the recovery began to blossom as oil and natural gas prices moved higher and our customers returned to their core business of exploring for and developing oil and gas reserves. Global Marine benefited significantly from this recovery as our revenues increased 31% to $1.04 billion, and net income grew 27% to $114 million in 2000.

Growing Demand

While beginning to accelerate their drilling programs last year, our exploration and production (E&P) customers remained somewhat reserved about spending too much of the record cash flow they were enjoying. Up to a point, that's a good thing. Strong, steady growth will make for a more efficient and much healthier industry. But there are dangers in moving too slowly.

High oil and natural gas prices have a downside for our industry. As painful as low energy prices are for us, high prices hurt consumers and are detrimental to world economies. Each of us in the energy sector must do our part to add productive capacity to the system so prices will recede to a level that's good for the industry and fair to the consumer.

The best way to achieve that goal is by drilling aggressively and efficiently. All of us in this industry must utilize the available pool of capital in the most effective way. Although the jury is still out, the evidence I see and hear through my conversations with customers and government leaders suggests that we are heading down the right path. Oil companies are stepping up their spending on drilling programs significantly in 2001, and governments around the world are chipping away at structural barriers to oil and gas development.

In the United States, we need to open up more federal lands for drilling and use our precious natural resources for the benefit of more of our citizens. The drilling industry has demonstrated a sensitivity to environmental concerns and an ability to meet our environmental responsibilities. The alternative is to continue down the road of importing more oil and oil products via tankers – the riskiest of all delivery systems. We'll not eliminate this risk, but by tapping our country's domestic resources, we can reduce exposure to the potential disasters posed by shipping.

Improving Results

Global Marine operates two major business segments: contract drilling and drilling management services. In our contract drilling business, we rent fully-crewed mobile offshore drilling rigs to our customers. These rigs are essentially mobile marine cities with factories for the construction of oil and gas wells. In our drilling management services business, we perform the role of an outsourced drilling department for our E&P customers. Both business segments showed strong improvement in 2000 and are positioned to deliver even stronger results in 2001.

Our contract drilling business provides the bulk of Global Marine's profitability and offers the greatest upside as our markets continue to improve. In 2000, contract drilling revenues grew 15%, and operating income rose 20%.

In an effort to capture the incentives that high commodity prices provide, our E&P customers are expected to turn to volume growth as the cornerstone of their operating strategies in 2001. This means drilling more wells to add new reserves and bring existing reserves to market faster.

As worldwide drilling activity accelerates, our revenues should increase as customers bid up the dayrates for rigs in order to secure equipment for their programs. Because contract drilling is fundamentally a fixed-cost business, this outlook for higher dayrates provides us substantial earnings growth potential in 2001. Additionally, our two new ultra-deepwater drillships that were placed in service during 2000 – the *Glomar C.R. Luigs* and the *Glomar Jack Ryan* – will contribute for a full year in 2001 and have a significant impact on our future financial performance.

Our drilling management services business enjoyed a 58% increase in revenue and accounted for 10% of our operating income in 2000. Global Marine continues to be the world's leading provider of drilling management services. We are uniquely positioned to benefit further as a result of recent organizational restructuring and merger activities among our customer base that have tended to deplete their internal drilling management capabilities. Many companies are allocating their personnel to only their most important core assets and are outsourcing less strategic drilling programs. We expect this trend to continue, and Global Marine's drilling management services business is ideally suited to fill that need.

As the drilling market recovery comes into full bloom, we expect that more of our competitors will announce plans for speculative building of new rigs. Except where new markets have evolved, as in the case of the ultra-deep water, ordering new rigs without long-term contracts has been a failed strategy in the past and will likely be in the future. We operate in a highly capital intensive, cyclical market and must behave accordingly. Our strategy during this recovery will be to maintain a strong balance sheet with growing cash reserves to capitalize on the opportunity to acquire additional offshore rigs at a discount at some point in the future. Our goal is to build shareholder value – not speculative new drilling rigs.

Highlights

Along with better financial results and completion of our two new ultra-deepwater drillships, there were a number of other achievements during 2000 worth noting here:

- Seven Global Marine rigs reentered service after having been idle for lack of work.
- Our drilling management services segment achieved record levels of activity, drilling 122 turnkey wells and performing 27 turnkey well completions.
- The *Glomar High Island IV* extended to 14 years its world record of operations without a lost-time incident.
- The *Glomar C.R. Luigs* set a record in the Gulf of Mexico by drilling a well in 8,835 feet of water.
- The *Glomar Explorer* established a new record for the deepest offshore well – 29,400 feet below the sea floor.
- The *Glomar High Island II* set a new Gulf of Mexico productivity mark by drilling an amazing 7,630 feet in a 24-hour period.

These and many other accomplishments are a tribute to the men and women of Global Marine who do their part every day to make a difference.

On behalf of the Board of Directors and all of our employees, I thank you, our shareholders, for your continued interest and investment in Global Marine.



Robert E. Rose, Chairman, President and CEO
March 7, 2001

The days of abundant excess OPEC productive capacity are behind us. For the first time in more than a generation, the world is faced with a truly balanced oil market. There is no doubt that growing worldwide oil demand and natural reservoir depletion must be met with increasing new energy supplies, which will require considerable new investment in drilling.

As a contract driller, Global Marine's prosperity is driven by the drilling plans and spending levels of our E&P customers. Increased investment by our oil and gas company customers will generally be predicated on three key factors – the market's need for additional oil and gas, the financial incentive to fill that need, and the ability to fund new capital spending programs.

During 2000, all three criteria were met, and the oil and gas industry responded by increasing worldwide E&P spending by an estimated 18.5%. During 2001, E&P spending is expected to jump another 20% as high world oil and U.S. natural gas prices continue to incentivize drilling and provide the necessary cash flow to fund expanding programs.

With a world-class fleet of 10 floating drilling rigs and 23 jackup rigs, Global Marine has balanced its exposure to the two major classes of offshore rigs most sought after by E&P companies. During the 2000 market recovery, Global Marine returned a number of rigs to service that had been idled during the 1998/1999 downturn, and we are now well-positioned to address the industry's growing need for high specification rigs with well-trained crews. We are dedicated to providing our customers the right equipment and the very best people to operate it.

Meeting Demand With Supply

Plentiful supplies of affordable energy helped fuel the robust growth enjoyed by the U.S. and world economies during the past decade. But the bubble of excess productive capacity that has existed in the world's oil markets is about to burst. And the North American natural gas bubble has already dissipated. *No longer can the oil and gas industry open a valve to meet growing demand or offset natural reservoir declines. Significant new drilling is required. Global Marine's world-class rig fleet positions us to do our part to help bring needed new hydrocarbon supplies to market.*

Jon A. Marshall – Executive Vice President and Chief Operating Officer



Global Marine's corporate culture is one that encourages our people to embrace change and tackle new frontiers. In the 1950s, Global Marine pioneered the introduction of floating drilling rigs. In the 1970s and 1980s, Global Marine transformed itself into a premier jackup contractor to meet the explosive growth in shallow-water drilling demand. The late 1990s ushered in the deepwater era, and Global Marine tackled the extreme technological challenges of this new frontier.

During the last five years, we have invested $1.7 billion to expand our deepwater fleet. We've added four semisubmersible and three ultra-deepwater, dynamically-positioned drillships to our fleet. We now have one of the youngest, best-maintained and most standardized offshore drilling fleets in the industry.

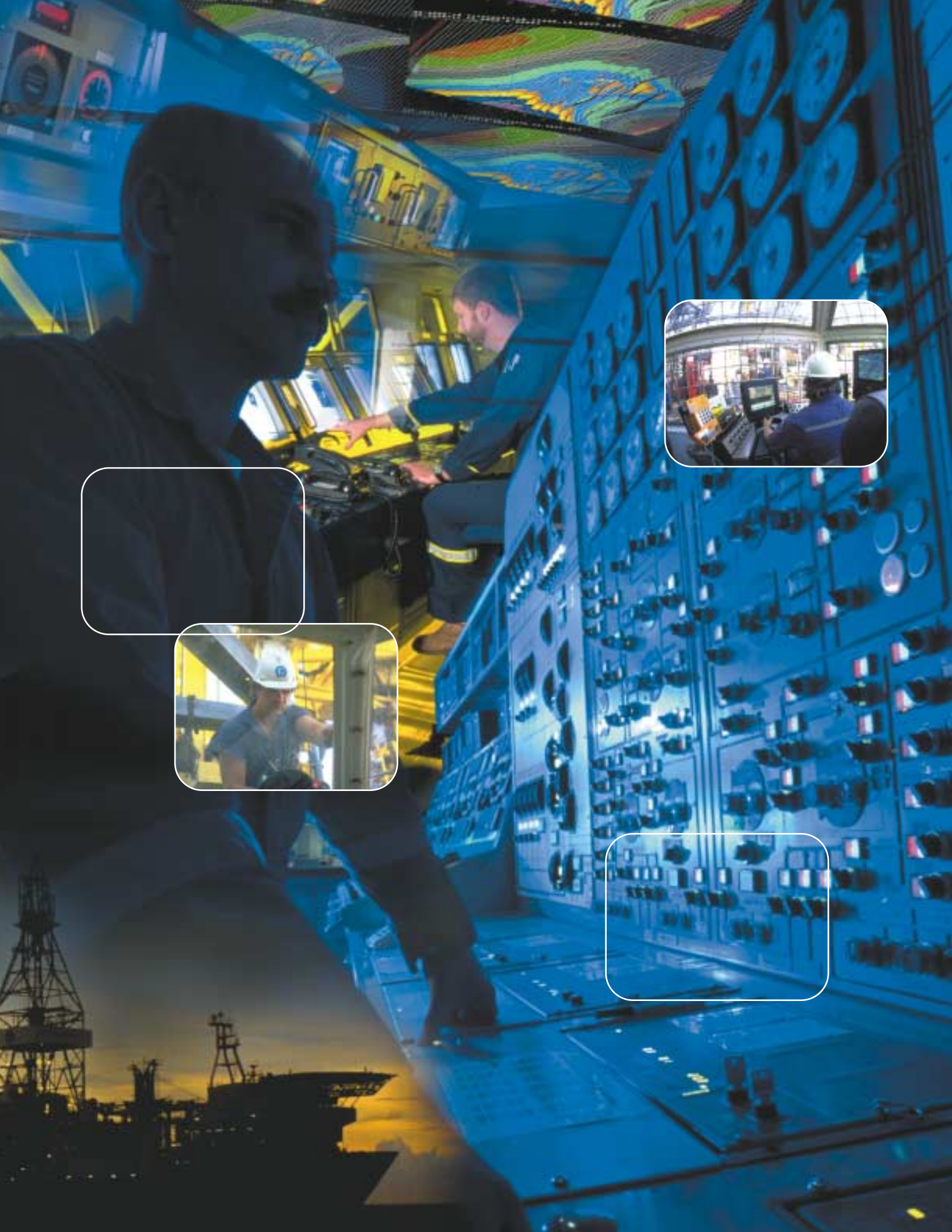
Superior engineering, innovative design, and application of advanced technology are all traditions of Global Marine. That's why it was logical for BHP and ExxonMobil to tap Global Marine to build and operate two new state-of-the-art, dynamically-positioned drillships for their worldwide exploration efforts.

The *Glomar C.R. Luigs* was the first of the two new drillships to be placed in service when it began a multi-year contract for BHP in the Gulf of Mexico during April 2000. And in December 2000, the *Glomar Jack Ryan* arrived in Trinidad to begin its three-year contract with ExxonMobil. Representing a new breed of drillship, the Global Marine-designed vessels have the ultimate capability of drilling a 35,000-foot well in up to 12,000 feet of water.

Tackling New Frontiers

Consolidation among our oil company customers occurred so they would have the size and scale to take on the mega-projects and technological innovations like those required to explore and exploit the world's ultra-deepwater riches. *Foresight and investment over the last five years have placed Global Marine at the leading edge of the deepwater frontier, with state-of-the-art equipment and skilled personnel to meet the deepwater's challenges in a safe and environmentally responsible way.*

Marion M. Woolie – President of Global Marine Drilling Company



Unlike most of our competitors, Global Marine can provide drilling management services in addition to fully-crewed drilling rigs. Under a management or turnkey arrangement, the traditional decision-making role of the E&P company customer is outsourced to one of Global Marine's two drilling management services subsidiaries.

Applied Drilling Technology Inc. (ADTI), our larger drilling management services subsidiary, ranked as the most active driller in the U.S. Gulf of Mexico in 2000, earning the top spot in the domestic turnkey market with a 65% market share. ADTI celebrated a record year, drilling 121 wells totaling about 1¼ million feet of hole. Additionally, ADTI has successfully expanded its business line by becoming the first company to offer well completions on a turnkey basis.

Our international drilling management services are primarily operated through Global Marine Integrated Services (GMIS) in Aberdeen, Scotland. GMIS managed 11 international drilling projects for E&P customers during 2000. In the United Kingdom, GMIS has taken a leadership role in major industry/government joint efforts to stimulate development of marginal and satellite fields that currently lie fallow.

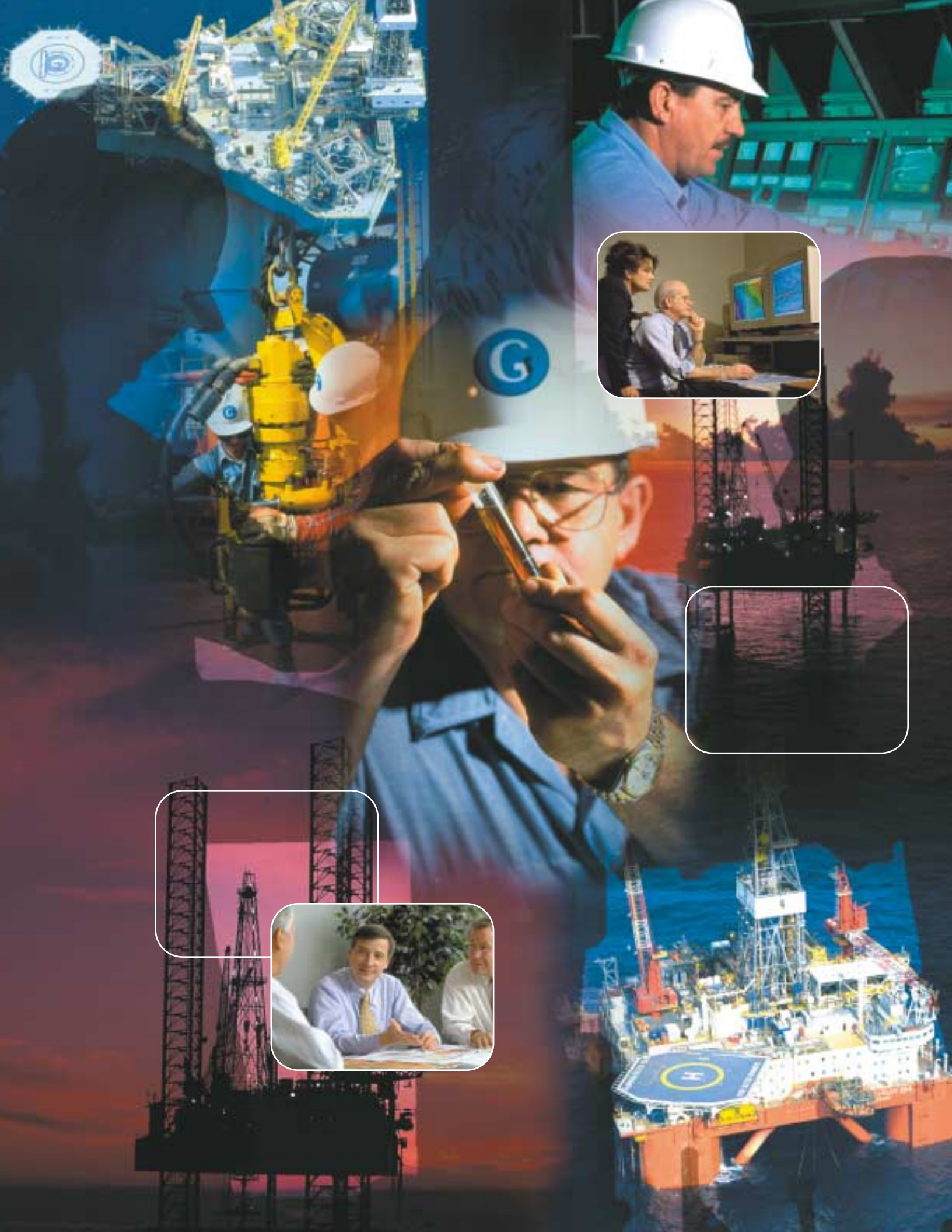
Challenger Minerals Inc. (CMI), our geoscience subsidiary, has become the premier screener of prospects in the Gulf of Mexico. Challenger Minerals has a strong reputation for prospect evaluation and is able to attract third-party capital to new drilling projects. Most of the time, these prospects are drilled by ADTI, thereby exposing Global Marine to turnkey profits and oil and gas reserves.

We know that providing solutions to meet the evolving needs of our customers is a winning strategy. Global Marine will continue to deliver value to our customers and our shareholders while minimizing risk to both.

Providing Solutions

You can't teach someone to be a driller. It's not a skill learned from a book or taught in a class. It takes years to understand the subtle communication or, at times, the violent response of an oil or gas well. As our customers refocus, reshape, and refine their business models, they will look outside to service companies who have unique skill sets that complement their own. *Global Marine's Drilling Management Services subsidiaries exist to fill that need. Whether a customer wants to shave peak workloads or outsource its entire drilling management function, Global Marine can provide the solution.*

Douglas K. Vrooman – President of Applied Drilling Technology Inc.



Those of us in the energy industry, and the offshore sector in particular, share a special responsibility for the sensitive environment in which we work. We also bear the unique burden of being in a business that many people love to hate. While others may prefer to remain silent, we believe we owe it to our shareholders, employees, customers, and communities to speak out about the issues that affect our country, industry, and company.

As an industry leader, Global Marine is frequently called upon to address a wide variety of topical issues in many different forums. Throughout the company, experts are called upon for their insight and ideas on deepwater drilling and rig construction, safety and environmental issues, international operating and marketing strategies, and many other relevant topics.

Global Marine's senior management is regularly sought out to speak to international audiences about the company's performance, the outlook for the industry, and hotly debated political issues affecting our industry. We will continue our commitment to do our part to address the key issues intertwined in the business of meeting the world's energy needs.

Speaking Out

The offshore drilling industry has an important role to play in meeting consumer demand for oil and natural gas. In this role, it is our responsibility to speak out on issues that impact our industry and our diverse constituencies. *Industry leadership has always been – and will continue to be – a hallmark of Global Marine. Whether the issue is protection of the marine environment, the safety of our workforce, the quality of our stock as an investment, or our nation's energy policies, Global Marine will continue to speak out and lead by example.*

W. Matt Ralls – Senior Vice President and Chief Financial Officer


Bloomberg
NYSE
Biotech
CHENEY'S CHALLENGE

Operations Review

Contract Drilling

Global Marine's world-class rig fleet is comprised of 23 premium jackups, six deepwater semisubmersibles, and four deepwater drillships. Our contract drilling operations are focused in three major geologic basins: the Gulf of Mexico, West Africa, and the North Sea. We also have rigs working offshore Trinidad, Eastern Canada and Brazil.

In 2000, our contract drilling revenues were $584 million, about 56% of the company's total revenues. Operating income for this segment was $184.5 million, or 85% of the company's worldwide income from operations in 2000. Looking at our 2000 contract drilling revenues by geographic area, the Gulf of Mexico generated about 59%, West Africa 18%, the North Sea 12%, and other areas 11%.

The Gulf of Mexico

With nearly 40% (172 rigs) of the world's active offshore drilling rigs, the Gulf of Mexico represents the largest offshore rig market. It is also Global Marine's most significant market. To capture more of the growing rig demand in the Gulf during late 1999 and early 2000, we moved three idle jackup rigs into the area – two from West Africa and one from the North Sea. At the end of 2000, 12 of Global Marine's premium jackup rigs and 4 of our deepwater rigs were working in the Gulf.

Two key factors are driving the growing demand for rigs in the Gulf of Mexico:

• It is an area rich in natural gas reserves, which can be brought online quickly in response to increasing demand; and

• Activity levels on the continental shelf are heavily influenced by the presence of a large number of independent oil and gas companies which tend to respond very quickly to changes in commodity prices.

Given the increased rig demand, dayrates for jackup rigs escalated rapidly in 2000. We were well-positioned to benefit from this rapidly improving market, having kept the average length of our contracts to a short 3½ months during 2000. As a result, the average dayrate we received for our jackup rigs in the Gulf rose from approximately $25,000 in January to about $50,400 in December.

The Gulf of Mexico also encompasses one of the world's most promising deepwater basins. At year-end 2000, two of Global Marine's deepwater semisubmersible rigs and two of our ultra-deepwater drillships were working in the Gulf. These rigs were operating under long-term contracts at dayrates averaging about $154,600 during 2000.

West Africa

In contrast to the Gulf of Mexico, the West Africa market is dominated by major integrated companies exploring for oil. Of the 45 offshore drilling rigs in West Africa during 2000, eight belonged to Global Marine, giving us the largest market share of any contractor in the region.

The West Africa market was hard hit during the 1998/1999 downturn, but recovered significantly during 2000. In early 2000, nearly half of the 26 jackups located in West Africa were idle; 4 of which were ours. However, as the majors resumed their drilling programs in the area, demand for jackup rigs grew. By the end of the year, we had reactivated three of our idle West Africa jackups, and the fourth was redeployed to the Gulf of Mexico in early 2001. In addition, in the second quarter of 2000, the *Glomar Robert F. Bauer* drillship was reactivated for work on a major development offshore Equatorial Guinea.

Along with improved rig utilization, our West Africa dayrates moved up sharply in late 2000. Jackup dayrates, which averaged about $29,800 in January 2000 had increased to almost $45,400 by December.

North Sea

High cost regions, such as the North Sea, are typically the last to



recover following a downturn. This has proven true again in the case of the current recovery. The North Sea market did not show any significant signs of improvement until late 2000, well after other markets had begun to rebound.

At the beginning of 2000, half of our North Sea fleet of six rigs was idle due to lack of work. During the first quarter of 2000, the *Glomar Adriatic IV* was moved from the North Sea to the Gulf of Mexico. In the fourth quarter, the *Glomar Arctic III* returned to service, and the *Glomar Arctic IV* was preparing to begin a new one-year contract in March 2001. Our North Sea rig utilization averaged 78% in the fourth quarter of 2000, with dayrates averaging approximately $50,600.

New Construction

The most important events for Global Marine in 2000 were the completion of our two new dynamically-positioned, ultra-deepwater drillships. Named in honor of former Global Marine Chairman and Chief Executive Officer C. R. Luigs and our late President and Chief Operating Officer Jack Ryan, these new rigs represent the best-in-class among the latest generation of drillships. Our combined investment in the two vessels totals about $767 million and represents the culmination of a $1.7 billion capital spending program to enhance our deepwater drilling capability.

The *Glomar C.R. Luigs* was contracted for three years and began operations in April 2000 for BHP in the Gulf of Mexico. The *Glomar Jack Ryan* started its three-year contract with ExxonMobil in December 2000 offshore Trinidad.

Drilling Management Services

Global Marine's drilling management services business is conducted through two subsidiaries – Applied Drilling Technology Inc. (ADTI) in Houston, Texas, and Global Marine Integrated Services (GMIS), in Aberdeen, Scotland. In 2000, our drilling management services revenues grew 58% to $436 million, up from $275 million in 1999. Operating income climbed 62% to $21.6 million in 2000, up from $13.3 million a year earlier.

ADTI

To be successful in the turnkey drilling business, it is important to maintain a large volume of work over which to spread the risks inherent in drilling. During 2000, ADTI drilled 121 turnkey wells and performed 26 turnkey completions for customers – capturing 64% of the Gulf of Mexico turnkey drilling market and performing about 90% of the turnkey well completions. ADTI's revenues totaled $368 million in 2000, a 57% increase from 1999.

During the last two years, ADTI's customer base has expanded to include more drilling for major oil companies. In the past, turnkey arrangements were used primarily by small independents. Now, larger companies are turning to turnkey providers to outsource peak workloads and benchmark their internal drilling performance.

GMIS

In the U.K., GMIS managed 11 international drilling projects – including one turnkey – for its oil and gas company customers during 2000. These projects included both the largest and the smallest field developments on the U.K. continental shelf during 2000. GMIS revenues reached $68 million in 2000, 67% higher than the previous year.

Challenger Minerals Inc.

Global Marine's oil and gas exploration and production subsidiary, Challenger Minerals Inc. (CMI), serves in a business development role for our drilling management services group. In this capacity, CMI facilitated 29 turnkey wells in the Gulf of Mexico and participated in 18 successful wells during 2000. In 2000, production from wells in which CMI holds an interest increased 41%, while revenue grew 142% to $20 million in 2000, and operating income jumped 510% to $12 million.

Global Marine Drilling Fleet

WESTERN HEMISPHERE

		Maximum Water Depth Capability[1]	Drilling Depth Capability	Location
Cantilevered Jackup	*Glomar High Island I*	250 ft.	20,000 ft.	Gulf of Mexico
	Glomar High Island II	270 ft.	20,000 ft.	Gulf of Mexico
	Glomar High Island III	250 ft.	20,000 ft.	Gulf of Mexico
	Glomar High Island IV	250 ft.	20,000 ft.	Gulf of Mexico
	Glomar High Island VIII	250 ft.	20,000 ft.	Gulf of Mexico
	Glomar Adriatic II	328 ft.	25,000 ft.	Gulf of Mexico
	Glomar Adriatic III	328 ft.	25,000 ft.	Gulf of Mexico
	Glomar Adriatic IV	328 ft.	25,000 ft.	Gulf of Mexico
	Glomar Adriatic VII	328 ft.	20,000 ft.	Trinidad
	Glomar Adriatic IX	328 ft.	20,000 ft.	Gulf of Mexico
	Glomar Adriatic X	328 ft.	20,000 ft.	Gulf of Mexico
	Glomar Main Pass I	300 ft.	25,000 ft.	Gulf of Mexico
	Glomar Main Pass IV	300 ft.	25,000 ft.	Gulf of Mexico
	Glomar Labrador I	300 ft.	25,000 ft.	Trinidad
	Glomar Baltic I	375 ft.	25,000 ft.	Gulf of Mexico
Semisubmersible	*Glomar Arctic I*	3,400 ft.	25,000 ft.	Gulf of Mexico
	Glomar Grand Banks	1,500 ft.	25,000 ft.	Eastern Canada
	Glomar Celtic Sea	5,750 ft.	25,000 ft.	Gulf of Mexico
Drillship	*Glomar C.R. Luigs*	9,000 ft.	35,000 ft.	Brazil
	Glomar Jack Ryan	8,000 ft.	35,000 ft.	Trinidad
	Glomar Explorer	7,800 ft.	30,000 ft.	Gulf of Mexico
Concrete Island Drilling System	*Glomar Beaufort Sea I* [2]	55 ft.	25,000 ft.	Alaska

[1] As currently equipped

[2] The *Glomar Beaufort Sea I* concrete island drilling system is inactive and has been excluded from the company's rig utilization figures.



EASTERN HEMISPHERE

		Maximum Water Depth Capability[1]	Drilling Depth Capability	Location
Cantilevered Jackup	*Glomar High Island V*	270 ft.	20,000 ft.	West Africa
	Glomar High Island VII	250 ft.	20,000 ft.	West Africa
	Glomar High Island IX	250 ft.	20,000 ft.	West Africa
	Glomar Adriatic I	300 ft.	25,000 ft.	West Africa
	Glomar Adriatic V	300 ft.	20,000 ft.	West Africa
	Glomar Adriatic VI	225 ft.	20,000 ft.	North Sea
	Glomar Adriatic VIII	328 ft.	25,000 ft.	West Africa
	Glomar Adriatic XI	225 ft.	25,000 ft.	North Sea
Semisubmersible	*Glomar Arctic III*	1,800 ft.	25,000 ft.	North Sea
	Glomar Arctic IV	1,800 ft.	25,000 ft.	North Sea
	Maersk Jutlander	1,200 ft.	25,000 ft.	North Sea
Drillship	*Glomar Robert F. Bauer*	2,750 ft.	25,000 ft.	West Africa

[1] As currently equipped

Senior Management

1. **Robert E. Rose**
   Chairman, President &
   Chief Executive Officer

2. **Jon A. Marshall**
   Executive Vice President and
   Chief Operating Officer

3. **Thomas R. Johnson**
   Senior Vice President and
   Chief Administrative Officer

4. **James L. McCulloch**
   Senior Vice President,
   General Counsel
   and Assistant Secretary

5. **W. Matt Ralls**
   Senior Vice President,
   Chief Financial Officer and
   Treasurer

6. **Douglas K. Vrooman**
   President of Applied Drilling
   Technology Inc.

7. **Marion W. Woolie**
   President of Global Marine
   Drilling Company

8. **James G. McCallum**
   President of Global Marine
   Integrated Services

9. **Thomas J. Morrow**
   President of Challenger
   Minerals Inc.

10. **R. Blake Simmons**
    President and Managing
    Director of Global Marine
    U.K. Limited

11. **Michael R. Dawson**
    Vice President, Investor
    Relations and Corporate
    Communications

12. **Alexander A. Krezel**
    Vice President, Corporate
    Secretary and Assistant
    General Counsel

13. **Douglas C. Stegall**
    Vice President and Controller

14. **Robert L. Herrin**
    Director of Audit,
    Policies and Security

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Results

Summary

Data relating to the Company's operations by business segment follows:

($ in millions)	**2000**	Increase (Decrease)	1999	Increase (Decrease)	1998
Revenues:					
Contract drilling	**$ 589.2**	14%	$ 517.7	(31%)	$ 753.7
Drilling management	**445.6**	58%	282.2	(33%)	421.5
Oil and gas	**20.1**	142%	8.3	118%	3.8
Less: Intersegment revenues	**(15.1)**	(12%)	(17.2)	2%	(16.8)
	$1,039.8	31%	$ 791.0	(32%)	$1,162.2
Operating income:					
Contract drilling	**$ 184.5**	20%	$ 153.5	(58%)	$ 361.7
Drilling management	**21.6**	62%	13.3	na	(30.7)
Oil and gas	**12.2**	510%	2.0	567%	0.3
Restructure costs	**(5.2)**	na	-	na	-
Corporate expenses	**(24.6)**	(4%)	(25.5)	23%	(20.8)
	$ 188.5	32%	$ 143.3	(54%)	$ 310.5

Operating income increased by $45.2 million to $188.5 million in 2000 from $143.3 million in 1999. The increase was attributable to the addition to the fleet of two newly constructed, ultra-deepwater drillships, the *Glomar C.R. Luigs* in April 2000 and *Glomar Jack Ryan* in December 2000, an increase in average rig utilization, and higher income from drilling management services and oil and gas. Operating income for 2000 included a one-time $5.2 million, first quarter charge in connection with a restructuring comprised of a workforce reduction and consolidation of facilities.

In 1999 operating income decreased by $167.2 million to $143.3 million from $310.5 million in 1998. The decrease was primarily attributable to lower average rig utilization and dayrates for contract drilling, partly offset by the addition of three deepwater rigs to the contract drilling fleet since February 1998, lower depreciation resulting from an increase in estimated rig service lives, and lower fixed costs for drilling management services.

Since the third quarter of 1999, the Company has seen continued improvement in utilization and dayrates for jackup rigs in the U.S. Gulf of Mexico and offshore West Africa, following the market downturn of 1998 and early 1999. In the U.S. Gulf of Mexico, where the Company has almost half of its fleet, its average rig utilization rate was 100 percent for 2000 as compared to an industry average of 80 percent for the region.[1] By year-end 2000, market dayrates for most classes of rigs in the U.S. Gulf of Mexico had more than doubled from year-end 1999 levels. In West Africa, where four of the Company's jackup rigs were cold-stacked at year-end 1999, the Company reactivated two rigs in the first quarter of 2000 and another in the third quarter of 2000, and mobilized another rig to the U.S. Gulf of Mexico, where it is expected to commence drilling in April 2001. In addition, the *Glomar Robert F. Bauer* drillship, which had been cold-stacked in Peru since June 1999, returned to work offshore West Africa in April 2000. In July 2000 the *Glomar Labrador* jackup commenced operations offshore Trinidad, where the rig is currently contracted through March 2002. Prior to July, the rig had been idle in Argentina for nearly a year.

Recovery in the market for second and third-generation semisubmersible drilling rigs in the North Sea and elsewhere, which has lagged the improvements in jackup markets in the Gulf of Mexico and West Africa, has recently showed signs of strengthening as previously announced plans for increased spending by major oil companies have begun to materialize. Since October 2000, the Company has reactivated three of its semisubmersible rigs that had been idle for periods ranging from eight to fourteen months – the *Glomar Arctic III* in October 2000 in the North Sea under a 540-day, $25.1

[1] *Source: Offshore Data Services and Global Marine database.*

million contract; the *Glomar Arctic IV* in March 2001 in the North Sea under a one-year, $23.7 million contract; and the *Glomar Grand Banks* in March 2001 offshore eastern Canada under a 60-day, $8.9 million contract. In addition, the *Maersk Jutlander* is expected to commence operations in the North Sea in March 2001, after being idle for about 45 days. Oil company budget announcements and surveys of capital spending plans for 2001 suggest average increases of about 20 percent over 2000 levels, with activity in the international markets expected to accelerate as major oil companies refocus on internal growth opportunities.

During 2000 the Company took delivery of the *Glomar C.R. Luigs* and the *Glomar Jack Ryan*, two newly constructed, dynamically-positioned, ultra-deepwater drillships. The *Glomar C.R. Luigs* and the *Glomar Jack Ryan* began earning dayrate in April and December 2000, respectively, under multi-year contracts. The drillships are state-of-the-art rigs and represent the culmination of a five-year capital investment program to expand the Company's deepwater capabilities. In 2001 the Company will benefit from the full-year contribution of the two new drillships placed into service in 2000. With the addition of the *Glomar C.R. Luigs* and *Glomar Jack Ryan*, the Company now has ten deepwater rigs.

As a result of the increased activity in offshore drilling, the Company has found it more difficult to find and retain qualified offshore personnel. In recognition of this, effective June 1, 2000, the Company increased compensation levels for certain of its offshore positions, some of which is recoverable from customers under dayrate adjustment provisions of certain contracts expiring from July 2002 to October 2003. The Company believes that its compensation levels are competitive within the industry.

Contract Drilling Operations

Data with respect to the Company's contract drilling operations follows:

($ in millions, except for fleet average dayrate)	**2000**	Increase (Decrease)	1999	Increase (Decrease)	1998
Contract drilling revenues by area: [1]					
U.S. Gulf of Mexico	**$ 349.5**	86%	$ 187.8	(30%)	$ 267.5
West Africa	**104.9**	6%	98.5	(55%)	218.8
North Sea	**69.1**	(49%)	134.5	(23%)	174.1
Other	**65.7**	(32%)	96.9	4%	93.3
	$ 589.2	14%	$ 517.7	(31%)	$ 753.7
Average rig utilization [2]	**84%**		76%		96%
Fleet average dayrate	**$ 59,000**		$ 59,600		$ 71,100

[1] *Includes revenues earned from affiliates.*

[2] *Excludes the* Glomar Beaufort Sea I *concrete island drilling system, a currently inactive, special-purpose mobile offshore rig designed for Arctic operations.*

Of the $71.5 million increase in contract drilling revenues for 2000 compared to 1999, $55.1 million was attributable to the addition of the *Glomar C.R. Luigs* drillship in April 2000 and the *Glomar Jack Ryan* drillship in December 2000, and $49.3 million was attributable to an increase in average rig utilization. These increases in contract drilling revenues were partly offset by a $32.4 million decrease attributable to lower average dayrates.

The increase in average rig utilization in 2000 as compared to 1999 was attributable primarily to the U.S. Gulf of Mexico and West Africa, partly offset by lower utilization in the North Sea. The lower average dayrates were due in part to the expiration of higher dayrate contracts signed when offshore drilling markets were tighter and unanticipated rig downtime attributable primarily to repair work on certain deepwater rigs. Such decreases were partly offset by higher dayrates for jackup rigs in the U.S. Gulf of Mexico.

Of the $236.0 million decrease in contract drilling revenues for 1999 compared to 1998, $180.8 million was attributable to a decrease in average dayrates, and $110.0 million was attributable to lower average rig utilization, partially offset by a $57.2 million increase attributable to the addition to the fleet of the *Glomar Celtic Sea* semi-submersible in February 1998, the *Glomar Arctic IV* semi-submersible in March 1998, and the *Glomar Explorer* drillship in August 1998.

The Company averaged 100 percent utilization for its drilling rigs in the U.S. Gulf of Mexico for 2000, 95 percent for 1999, and 96 percent for 1998. The Company's average utilization rate for its rigs located offshore West Africa was 77 percent for 2000, 48 percent for 1999, and 94 percent for 1998. The Company averaged 62 percent utilization for its rigs in the North Sea for 2000, 81 percent for 1999, and 98 percent for 1998.

The mobilization of rigs among the geographic areas shown in the preceding table also affected each area's revenues over the periods indicated. During 1998 the Company mobilized one jackup from the U.S. Gulf of Mexico to the North Sea, one jackup from California

to the North Sea, and one semisubmersible from the North Sea to the east coast of Canada. During 1999 the Company mobilized two jackups from West Africa to the U.S. Gulf of Mexico, one jackup from the North Sea to the U.S. Gulf of Mexico, one drillship from West Africa to offshore Peru, and one drillship from the U.S. Gulf of Mexico to West Africa. During 2000 the Company mobilized one drillship from offshore Peru to West Africa and one drillship from West Africa to the U.S. Gulf of Mexico.

As of February 28, 2001, fifteen of the Company's rigs were located in the U.S. Gulf of Mexico, seven were offshore West Africa, five were in the North Sea, three were offshore Trinidad, one was offshore the east coast of Canada, one was in Brazil, and one was enroute to the U.S. Gulf of Mexico from West Africa. As of February 28, 2001, all of the Company's rigs were operating under contract or had commitments to commence operations soon thereafter.

In December 1998 the Company conducted an evaluation of the service lives of the rigs in its drilling fleet. Based on the results of the evaluation, effective January 1, 1999, the Company increased the estimated useful lives of its jackups and semisubmersibles to 30 years to better reflect their estimated economic lives. Prior to the change, jackups were depreciated over 25-year lives, and semisubmersibles generally were depreciated over 20-year lives. The effect of the change was to decrease 1999 depreciation expense by $27.2 million.

The Company's operating profit margin for contract drilling operations increased to 31 percent in 2000 from 30 percent in 1999 primarily due to the increase in average rig utilization. Operating expenses increased to $404.7 million in 2000 from $364.2 million in 1999 primarily due to higher depreciation and other operating costs in connection with the addition of the *Glomar C.R. Luigs* and higher operating costs due to fewer cold-stacked rigs in 2000 as compared to 1999.

The Company's operating profit margin for contract drilling operations decreased to 30 percent in 1999 from 48 percent in 1998 primarily due to lower average rig utilization and dayrates. Operating expenses decreased to $364.2 million in 1999 from $392.0 million in 1998 primarily due to lower expenses in connection with the Company's cold-stacked rigs and lower depreciation resulting from the increase in estimated rig lives. These declines were partly offset by the operating costs of the three rigs added to the fleet in 1998 and higher operating costs incurred on the *Glomar Grand Banks,* which, prior to December 1998, was being leased from the Company under a bareboat charter. Under a bareboat charter, the Company provides the customer with a rig, and the customer uses its own crews to operate the rig.

Drilling Management Services

Drilling management services revenues increased by $163.4 million to $445.6 million in 2000 from $282.2 million in 1999. The increase in revenues consisted of a $137.2 million increase attributable to an increase in the number of turnkey projects, a $21.8 million increase attributable to daywork and other revenues, and a $4.4 million increase attributable to higher average revenues per turnkey project. The Company completed 149 turnkey projects in 2000 (122 wells drilled and 27 well completions) as compared to 92 turnkey projects in 1999 (76 wells drilled and 16 well completions).

Drilling management services revenues decreased by $139.3 million to $282.2 million in 1999 from $421.5 million in 1998. The decrease in revenues consisted of a $109.8 million decrease attributable to lower average revenues per turnkey project and a $55.5 million decrease attributable to daywork and other revenues, partly offset by a $26.0 million increase attributable to an increase in the number of turnkey projects. The Company completed 81 turnkey projects in 1998 (77 wells drilled and 4 well completions) as compared to the 92 projects in 1999.

Operating income for drilling management services increased by $8.3 million to $21.6 million in 2000 from $13.3 million in 1999, and by $44.0 million to $13.3 million in 1999 from a loss of $30.7 million in 1998. Operating profit margin increased to 4.8 percent in 2000 from 4.7 percent in 1999 as compared to the loss in 1998. The improvement in profit margin in 1999 as compared to 1998 was due in part to a decrease in the number of rigs under term contract to the Company. During 1998 and 1999, the Company was paying above-market rates for the use of as many as sixteen rigs under term contracts signed in late 1997 and early 1998, when market rates were higher. The incremental cost of these rigs above what they would have cost if contracted as needed on the spot market was estimated to be $57.2 million in 1998 and $11.8 million in 1999. By June 30, 1999, the Company had substantially fulfilled all obligations related to rigs contracted at above-market rates. Currently, the Company is contracting rigs as needed on a well-by-well basis. Bad debt expense for drilling management services was $11.3 million in 1998 and $1.3 million in 1999.

Results for drilling management services in 2000 were mixed. The Company completed a record number of turnkey projects in the fourth quarter and full-year 2000; however, margins were below expectations due in part to losses totaling $15.2 million incurred on 18 of the 122 turnkey wells drilled during the year. The losses resulted in part from an aggressive pricing strategy intended to protect market share and in part to a dilution of experienced rig crew personnel across the fleet of third-party rigs used by the Company, as rig utilization was reaching a peak in the fourth quarter. The Company believes this dilution of experienced personnel translated into an additional 2½ days of drilling time per well, on average, and an estimated $7 to $8 million of total additional cost in the fourth quarter of 2000. In addition, the Company experienced a higher than normal incidence of problem wells during the quarter related to hazards inherent to oil and gas drilling operations. The Company intends to increase budgeted margins and estimated drilling time in its future bids and anticipates that these changes will restore margins to a

more historical level, although they will likely result in a reduction in the number of turnkey wells drilled in 2001 as compared to 2000.

In the fourth quarter of 2000, the Company recognized a $2.9 million estimated pretax loss on a fixed-price turnkey well offshore Louisiana that was expected to be completed during the first quarter of 2001. In January 2001, additional problems were encountered, and attempts to complete drilling the well were abandoned. The Company estimates the total cost of the well to be $7.3 million. As a result, the Company will recognize an additional pretax loss of $4.4 million on this well in the first quarter of 2001.

Results of operations from the Company's drilling management services may be limited by certain factors, in particular the ability of the Company to find and retain qualified personnel, to hire suitable rigs at acceptable rates, and to obtain and successfully perform turnkey drilling contracts based on competitive bids. The Company's ability to obtain turnkey drilling contracts is largely dependent on the number of such contracts available for bid, which in turn is influenced by market prices for oil and gas, among other factors. Accordingly, results of the Company's drilling management service operations may vary widely from quarter to quarter and from year to year.

Other Income and Expense

General and administrative expenses were $22.6 million in 2000, $23.6 million in 1999, and $19.1 million in 1998. The decrease in general and administrative expenses from 1999 to 2000 was due to lower professional fees and other expenses resulting from the Company's cost-cutting program, partly offset by higher compensation expense. The increase in general and administrative expenses from 1998 to 1999 was primarily due to increases in professional fees and compensation expense. The increases in compensation expense were primarily attributable to accrued expenses under a long-term, performance-based stock compensation plan. Expense under the plan is based in part on the market price of the Company's common stock.

Interest expense was $63.6 million for 2000, $56.6 million for 1999, and $46.9 million for 1998. The increases in interest expense were primarily attributable to higher levels of debt incurred to finance the upgrade, acquisition, conversion, and construction of rigs, partially offset by lower effective interest rates primarily in 2000 due to the issuance of the Zero Coupon Convertible Debentures.

The Company capitalized interest expense of $26.4 million in 2000, $25.9 million in 1999, and $17.2 million in 1998 in connection with the construction and conversion of rigs. The Company does not anticipate capitalizing any interest expense in 2001.

Interest income increased to $4.0 million in 2000 from $2.7 million in 1999 and $3.3 million in 1998 primarily due to higher average cash balances and short-term investments in 2000 as compared to 1999 and 1998.

Substantial amounts of the Company's consolidated earnings are attributable to its foreign subsidiaries. Under the United States Internal Revenue Code, earnings of foreign subsidiaries are generally not subject to U.S. income taxes until distributed or deemed to be distributed to a U.S. parent company. The Company is confident of the positions it has taken on its tax returns with regard to the taxability of its foreign subsidiaries' undistributed earnings; however, it cannot provide assurance that its positions will never be challenged or that, if challenged, the Company would not be required to pay U.S. taxes on some or all of such earnings.

A company with a specific plan to reinvest undistributed foreign subsidiary earnings outside the U.S., which plan demonstrates that distribution of the earnings will be postponed indefinitely, is not required to record a U.S. deferred income tax liability on such earnings. The Company has not recorded a U.S. deferred income tax liability on $263.5 million of undistributed foreign earnings as of December 31, 2000, because it intends to permanently reinvest these earnings outside the U.S. It is not practical to estimate the tax liability the Company would be required to recognize if it no longer intended to permanently reinvest such earnings abroad.

Because the Company's foreign earnings were taxed at rates generally lower than U.S. rates, the Company's effective income tax rate for financial reporting purposes has fluctuated from year to year as the relative amounts of the Company's U.S. and foreign earnings have fluctuated. Such effective tax rates were approximately 27 percent in 2000, 22 percent in 1999, and 21 percent in 1998, which were lower than the U.S. federal statutory rate of 35 percent.

The Company had a net deferred tax asset recorded on its balance sheet as of December 31, 2000, in the amount of $70.1 million, $50.0 million of which was classified as current. The Company's ability to realize the benefit of this deferred tax asset, which consists principally of net operating loss ("NOL") carryforwards in the United States, requires that the Company achieve certain future earnings levels prior to the expiration of its NOL carryforwards. The Company could be required to record a valuation allowance against the future tax benefit of its NOL carryforwards if market conditions deteriorate and future earnings are below, or projected to be below, its current estimates.

In the first quarter of 2000, the Company implemented a restructuring designed to streamline its organization and improve efficiency. The restructuring involved a workforce reduction of approximately 89 positions, a consolidation of administrative offices in Houston and Europe, and closure of a materials control facility in Houston. The employee functions affected were primarily corporate support in nature and included materials control, engineering, accounting, and information technology, among others. Approximately 80 percent of the affected positions were located in Houston, and the remaining 20 percent were located in Europe. The Company recorded a $5.2 million pretax charge in the first quarter of 2000 in connection with the restructuring, consisting of $4.3 million for employee severance costs and $0.9 million for

office and facility closures. Cash payments for severance are being paid over various periods generally ranging from six weeks to twelve months from the date of termination, based on salary and length of service. Cash payments in 2000 under the restructuring totaled $3.2 million, consisting of $3.0 million for employee severance and $0.2 million for facility closures. Payments contemplated under the restructuring will be substantially completed by mid-2001. The Company expects to record pretax savings of approximately $1.5 million per quarter after completion of the plan's implementation in the first quarter of 2001. Approximately 80 percent of the savings is expected to be realized through lower contract drilling expenses, and the remainder is expected to be realized through lower drilling management and general and administrative expenses.

Liquidity and Capital Resources

Financing and Investing Activities

In 1998 the Company entered into fixed-price contracts with Harland and Wolff Shipbuilding and Heavy Industries Limited (the "Shipbuilder") totaling $315 million for the construction of two dynamically positioned, ultra-deepwater drillships, the *Glomar C.R. Luigs* and the *Glomar Jack Ryan*. Pursuant to two 20-year, capital lease agreements, the Company subsequently novated the construction contracts for the drillships to two financial institutions (the "Lessors"), which now own the drillships and have agreed to lease them to the Company. The Company has deposited with three large foreign banks (the "Payment Banks") amounts equal to the progress payments that the Lessors were required to make under the construction contracts, less a lease benefit of approximately $62 million. In exchange for the deposits, the Payment Banks have assumed liability for making rental payments required under the leases, and have legally released the Company as the primary obligor of such rental payments. Accordingly, the Company has recorded no capital lease obligations on its balance sheet with respect to the two drillships. The *Glomar C.R. Luigs* and the *Glomar Jack Ryan* began operating under contract in April and December 2000, respectively. (See Note 4 of Notes to Consolidated Financial Statements.)

In June 2000 the Company completed a private placement of Zero Coupon Convertible Debentures due June 23, 2020, and received net proceeds of $292.6 million after deduction for legal, accounting, and underwriting fees. The Company used the proceeds of the debentures, plus available cash, to pay off outstanding commercial paper, which had been issued primarily to finance construction of the *Glomar C.R. Luigs* and *Glomar Jack Ryan* drillships, and for general corporate purposes.

The convertible debentures were issued at a price of $499.60 per debenture, which represents a yield to maturity of 3.5 percent per annum to reach an accreted value at maturity of $1,000 per debenture. The Company has the right to redeem the debentures in whole or in part on or after June 23, 2005, at a price equal to the issuance price plus accrued original issue discount through the date of redemption. Each debenture is convertible into 12.2182 shares of Global Marine Inc. common stock (7,330,920 total shares) at the option of the holder at any time prior to maturity, unless previously redeemed. Holders have the right to require the Company to repurchase the debentures on June 23, 2005, June 23, 2010, and June 23, 2015, at a price equal to the accreted value through the date of repurchase. The Company may pay the repurchase price with either cash or shares of the Company's common stock or a combination of cash and shares of common stock. The Company does not anticipate using common stock to satisfy any such future purchase obligation.

Other significant financing and investing activities during the three-year period ended December 31, 2000, were as follows:

- *January 1998* - Entered into a one-year unsecured $150 million revolving bank credit facility, bringing the total amount available for borrowings under all committed credit facilities to $390 million. The $150 million credit facility was subsequently extended to October 2000.
- *February 1998* - Completed the conversion of the *Glomar Celtic Sea* semisubmersible and placed it into service under long-term contract in the U.S. Gulf of Mexico.
- *March 1998* - Purchased the deepwater semisubmersible, *Stena Forth*, for $150 million with borrowings under revolving bank credit facilities. The *Stena Forth* was subsequently renamed the *Glomar Arctic IV*.
- *March 1998* - Entered into an agreement to purchase from Transocean ASA the remaining 43.4 percent interest in the partnership operating the *Glomar Adriatic V*, *Glomar Adriatic VI*, and *Glomar Adriatic VII* for $20.3 million in cash.
- *May 1998* - Issued $300 million of 7% Notes due 2028 and used the proceeds to pay down amounts outstanding under the Company's bank credit facilities.
- *August 1998* - Completed the conversion of the *Glomar Explorer* drillship and placed it into service under long-term contract in the U.S. Gulf of Mexico.
- *August 1999* - Initiated a commercial paper program under which the Company may issue up to $350 million of debt at rates generally more favorable than the rates available under the Company's revolving bank credit facilities.
- *April 2000* - Entered into a short-term unsecured $50 million revolving bank credit facility with two major banks, bringing the total amount available for borrowings under all committed credit facilities to $440 million.
- *July 2000* - Terminated the Company's $150 million and $50 million revolving bank credit facilities. At December 31, 2000, the Company had a $240 million committed revolving bank credit facility available for future borrowings. The $240 million facility expires December 2002.

On March 5, 2001, the Company entered into an agreement to sell the *Glomar Beaufort Sea I* concrete island drilling system (the "CIDS") for $45 million. A down payment of $5 million is payable at closing, which

is expected to take place before June 2001, with the remainder of the purchase price, plus accrued interest, to be payable on or before March 1, 2003. The purchaser has a right to require the Company to retake title to the CIDS if certain foreign governmental approvals relating to the purchaser's use of the CIDS are not received prior to June 29, 2001. If title to the CIDS is transferred back to the Company, the remainder of the purchase price debt would be extinguished in consideration of a payment to the Company of $15 million, including the $5 million down payment.

Cash Flows

In December 2000 the Company settled its dispute with a subsidiary of Transocean Sedco Forex ("Transocean") with respect to a bareboat charter agreement for the drilling rig, *Glomar Grand Banks*. The Company had assumed rights to the bareboat charter at the time it acquired ownership of the rig in 1997. At issue were (i) the date of termination of the charter, (ii) the condition of the rig upon its return to the Company, and (iii) the charterer's liability to pay additional dayrate. Under the terms of the settlement, Transocean paid the Company $67.5 million in cash in December 2000 and waived its claim against the Company in the amount of $2.0 million. The Company applied $63.0 million of the proceeds to reduce noncurrent accounts receivable with the remainder recorded as a reduction of the Company's cost basis in the rig. Recognition of the settlement had no effect on 2000 earnings.

In 2000 cash flow provided by operating activities amounted to $280.6 million. An additional $292.6 million was provided from issuance of the Zero Coupon Convertible Debentures (after deduction for legal, accounting, and underwriting fees), $14.0 million was provided from exercises of employee stock options, and $3.3 million was provided from other sources. From the $590.5 million sum of cash inflows, $349.9 million was used to reduce long-term debt, $177.8 million was used for capital expenditures, and $1.8 million was used for other purposes.

In 1999 cash flow provided by operating activities amounted to $271.9 million. An additional $194.9 million was provided from borrowings under the Company's bank credit facilities and commercial paper program (net of payments), $6.4 million was provided from sales of properties and equipment, and $3.4 million was provided from exercises of employee stock options. From the $476.6 million sum of cash inflows, $448.1 million was used for capital expenditures, and $2.1 million was used for other purposes.

In 1998 cash flow provided by operating activities amounted to $258.0 million. An additional $292.9 million was provided from issuance of the 7% Notes (after deduction for discount, underwriting fees, and issue costs), $55.0 million was provided from borrowings under the Company's bank credit facilities (net of payments), $4.4 million was provided from exercises of employee stock options, $3.7 million was provided from sales of properties and equipment, and $1.7 million was provided from maturities of marketable securities (net of purchases). From the $615.7 million sum of cash inflows, plus available cash, $637.7 million was used for capital expenditures.

Future Cash Requirements

As of December 31, 2000, the Company had long-term debt of $918.6 million and shareholders' equity of $1.3 billion. Long-term debt at December 31 consisted of $305.3 million (net of discount) of Zero Coupon Convertible Debentures due 2020, $299.5 million (net of discount) of 7⅛% Notes due 2007, $296.5 million (net of discount) of 7% Notes due 2028, and a $17.3 million capital lease obligation.

Annual interest on the 7⅛% Notes is $21.4 million, payable semiannually each March and September. Annual interest on the 7% Notes is $21.0 million, payable semiannually each June and December. No principal payments are due under either issue until the maturity date.

The Company may redeem the 7⅛% Notes and the 7% Notes in whole at any time, or in part from time to time, at a price equal to 100 percent of the principal amount thereof plus accrued interest, if any, to the date of redemption, plus a premium, if any, relating to the then-prevailing Treasury Yield and the remaining life of the notes. The indentures relating to the Zero Coupon Convertible Debentures, 7⅛% Notes, and 7% Notes contain limitations on the Company's ability to incur indebtedness for borrowed money secured by certain liens and to engage in certain sale/leaseback transactions. The $240 million revolving bank credit facility contains similar limitations, requires the Company to maintain minimum levels of net worth and interest coverage, and limits the Company's maximum debt as a percentage of capitalization.

Capital expenditures for 2001 are presently estimated to be $95 million, consisting of $89 million for upgrades to drilling fleet equipment and $6 million for other capital expenditures.

Sources of Liquidity

As of December 31, 2000, the Company had $144.3 million of cash and cash equivalents, all of which was unrestricted, and $240 million available for borrowings under its revolving bank credit facility and commercial paper program. The Company had $83.3 million in cash and cash equivalents at December 31, 1999.

In 1998 the Company filed with the U.S. Securities and Exchange Commission a registration statement on Form S-3 under which, together with a previous registration statement on Form S-3, the Company may offer to sell from time to time (i) unsecured debt securities consisting of notes, debentures, or other evidences of indebtedness, (ii) shares of preferred stock, $.01 par value per share, and/or (iii) shares of common stock, $.10 par value per share, for an aggregate initial public offering price not to exceed $500 million. The amount of securities available for issuance was reduced from $500 million to $200 million as a result of the issuance of the $300 million of 7% Notes in 1998. There is no assurance that the Company could raise capital on acceptable terms using its shelf registration.

The Company believes it will be able to meet all of its

current obligations, including working capital requirements, capital expenditures and debt service, from its cash and cash equivalents and future cash flow from operations.

In December 1999 the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements," which provides the staff's interpretations of the application of generally accepted accounting principles to revenue recognition. The implementation of SAB 101 in the fourth quarter of 2000 did not have a material effect on the Company's results of operations, financial position or cash flows.

In June 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company adopted SFAS No. 133, as amended, on January 1, 2001. Adoption of the standard had no material effect on the Company's financial statements.

Quantitative and Qualitative Disclosures about Market Risk

The Company's debt consists of fixed-interest rate, variable-interest rate, and zero coupon convertible debt; consequently, the Company's earnings and cash flows, as well as the fair values of its fixed-rate and zero coupon convertible debt instruments, are subject to interest-rate risk. In addition, the Company's zero coupon convertible debt is subject to stock-price risk. The Company has performed sensitivity analysis to assess the impact of these risks based on a hypothetical ten-percent increase in market interest rates and a hypothetical ten-percent decrease in its common stock price. Market interest rate and stock price volatility are dependent on many factors that are impossible to forecast, and actual interest rate increases and stock price decreases could be more severe than the hypothetical ten-percent change.

The Company estimates that if prevailing market interest rates had been ten percent higher throughout 2000 and 1999, and all other factors affecting the Company's debt remained the same, pretax earnings would have been lower by $1.2 million in 2000 and $1.1 million in 1999. With respect to the fair value of the Company's fixed-interest rate and zero coupon convertible debt, if prevailing market interest rates had been ten percent higher at year-end 2000 and 1999, and all other factors affecting the Company's debt remained the same, the fair value of the Company's fixed-rate debt, as determined on a present-value basis, would have been lower by $37.0 million (6.4 percent) at December 31, 2000, and $33.3 million (6.1 percent) at December 31, 1999, and the Company's zero coupon convertible debt would have been lower by $2.2 million (0.7 percent) at December 31, 2000. With respect to the fair value of the Company's zero coupon convertible debt, if the Company's common stock price would have been ten percent lower at year-end 2000, and all other factors affecting the zero coupon convertible debt remained the same, the fair value of the convertible debt, as determined on a present-value basis, would have been lower by $10.7 million (3.5 percent) at December 31, 2000.

Currently, the Company does not actively manage its interest-rate risk.

Forward-Looking Statements

Under the Private Securities Litigation Reform Act of 1995, companies are provided a "safe harbor" for discussing their expectations regarding future performance. We believe it is in the best interests of our stockholders and the investment community to use these provisions and provide such forward-looking information. We do so in this report and other communications. Our forward-looking statements include things such as our:

- estimated availability dates for our rigs;
- expectations regarding backlog amounts that will be realized in 2001;
- statement that we do not presently anticipate that any material expenditures will be required to enable us to comply with existing environmental laws and regulations;
- opinion that we maintain sufficient insurance coverage to respond to the added exposures from OPA 90 and similar legislation enacted in various states;
- expectation that the purported antitrust class action lawsuit filed in the federal district court in Galveston, Texas, will not have a material adverse effect on our business or financial position, results of operations or cash flows;
- belief that Harland and Wolff's claim, with the exception of a small portion of the steel-weight claim, is totally without merit;
- expectations regarding the dates various rigs will commence operations or drilling or the length of time the Company will benefit from their operations or drilling;
- statements regarding oil company capital spending plans and future activity levels;
- statement regarding the anticipated results of our intended increases in budgeted margins and estimated drilling time in our future drilling management services bids;
- statement that we do not anticipate capitalizing any interest expense in 2001;
- confidence in the positions we have taken on our tax returns with regard to the taxability of our foreign subsidiaries' undistributed earnings, and our statement that we intend to permanently reinvest these earnings outside the U.S.;
- expectations regarding the pretax savings we will record after completion of our restructuring plan in the first quarter of 2001;
- statement that we do not anticipate using common stock to satisfy any future purchase obligations under our Zero Coupon Convertible Debentures;
- estimates regarding 2001 capital expenditures;
- belief in the Company's ability to meet its current obligations; and
- other statements that are not historical facts.

Our forward-looking statements speak only as of the date of this report and are based on currently available indus-

try, financial, and economic data and our operating plans. They are also inherently uncertain, and investors must recognize that events could turn out to be materially different from our expectations.

Factors that could cause or contribute to such differences include, but are not limited to:

- changes in our customers' current drilling programs due to unanticipated occurrences in the course of drilling, or changes in their future plans or programs due to their own internal corporate events, changes in the markets and prices for oil and gas, or shifts in the relative strengths of various geographic drilling markets brought on by things such as a general economic slowdown, or regional or worldwide recession;
- delays in commencing or completing operations or drilling due to things such as contract disputes, weather conditions, political or social unrest, or engineering or other mechanical problems;
- changes in the way governments interpret or enforce their laws or regulations, or changes in the laws or regulations or regulations themselves;
- the uncertainties inherent in dealing with other parties and resolving disputed matters through negotiation, arbitration, litigation, or by other means;
- changes in oil and gas drilling technology or in our competitors' drilling rig fleets that could make our drilling rigs less competitive or require major capital investment to keep them competitive;
- changes in our business or in capital markets that affect our ability to finance our business or meet our financial obligations in the manner currently anticipated;
- inflationary pressures or increased regulatory requirements, either of which could undermine our ability to keep our overhead low and realize the expected savings from our recent restructuring; and
- such other risk factors as may be discussed in the Company's reports filed with the U.S. Securities and Exchange Commission.

The Company disclaims any obligation or undertaking to disseminate any updates or revisions to its statements, forward-looking or otherwise, to reflect changes in the Company's expectations or any change in events, conditions, or circumstances on which any such statements are based.

We have also made forward-looking statements in this Annual Report that are not specifically identified above. Some, but not all, of these statements are identifiable by words such as "outlook," "project," "estimate," and "predict." This Annual Report does not contain a full discussion of all the risks, uncertainties and other information that may be important to you. Before making any decision regarding Global Marine or its securities, you should review not only this Annual Report, including the discussion regarding forward-looking statements above, but also the other information we provide, including the information we file with the U.S. Securities and Exchange Commission.

FIVE-YEAR REVIEW

(In millions, except per-share and operational data)	**2000**	1999	1998	1997	1996
Financial Performance					
Revenues:					
Contract drilling	**$ 584.1**	$ 507.7	$ 742.4	$ 579.4	$ 362.5
Drilling management services	**435.6**	275.0	416.0	480.5	305.3
Oil and gas	**20.1**	8.3	3.8	7.2	12.9
Total revenues	**$1,039.8**	$ 791.0	$1,162.2	$1,067.1	$ 680.7
Operating income:					
Contract drilling	**$ 184.5**	$ 153.5	$ 361.7	$ 274.8	$ 125.4
Drilling management services	**21.6**	13.3	(30.7)	50.0	27.9
Oil and gas	**12.2**	2.0	0.3	2.1	6.8
Restructure costs	**(5.2)**	-	-	-	-
Corporate expenses	**(24.6)**	(25.5)	(20.8)	(21.8)	(19.3)
Total operating income	**188.5**	143.3	310.5	305.1	140.8
Other income (expense):					
Interest expense	**(63.6)**	(56.6)	(46.9)	(39.7)	(30.9)
Interest capitalized	**26.4**	25.9	17.2	20.9	2.6
Interest income	**4.0**	2.7	3.3	7.7	6.2
Other	-	-	-	-	1.0
Total other income (expense)	**(33.2)**	(28.0)	(26.4)	(11.1)	(21.1)
Income before income taxes and extraordinary item	**155.3**	115.3	284.1	294.0	119.7
Provision for income taxes:					
Current tax provision	**12.4**	3.4	18.5	33.5	9.6
Deferred tax provision (benefit)	**29.0**	22.4	42.3	(54.6)	(70.0)
Total income tax provision (benefit)	**41.4**	25.8	60.8	(21.1)	(60.4)
Income before extraordinary item	**113.9**	89.5	223.3	315.1	180.1
Extraordinary loss on extinguishment of debt, net	-	-	-	(4.5)	-
Net income	**$ 113.9**	$ 89.5	$ 223.3	$ 310.6	$ 180.1
Income per share before extraordinary item:					
Basic	**$ 0.65**	$ 0.51	$ 1.29	$ 1.84	$ 1.07
Diluted	**$ 0.64**	$ 0.51	$ 1.27	$ 1.79	$ 1.03
Net income per share:					
Basic	**$ 0.65**	$ 0.51	$ 1.29	$ 1.81	$ 1.07
Diluted	**$ 0.64**	$ 0.51	$ 1.27	$ 1.76	$ 1.03
Average common shares - Basic	**175.3**	174.0	173.0	171.2	167.9
Average common shares - Diluted	**179.3**	176.8	175.8	176.2	174.3
Dividends declared per common share	**$ -**	$ -	$ -	$ -	$ -
Capital expenditures	**$ 177.8**	$ 448.1	$ 637.7	$ 580.3	$ 118.3
Depreciation, depletion, and amortization [1]	**$ 107.0**	$ 88.8	$ 103.9	$ 55.1	$ 40.9
Financial Position (end of year)					
Working capital	**$ 221.5**	$ 63.4	$ 117.0	$ 144.2	$ 158.9
Properties and equipment, net	**$1,940.1**	$1,868.6	$1,512.1	$ 999.0	$ 477.4
Total assets	**$2,396.8**	$2,264.5	$1,971.6	$1,421.9	$ 807.8
Long-term debt, including capital lease obligation	**$ 918.6**	$ 955.3	$ 768.4	$ 417.3	$ 241.6
Shareholders' equity	**$1,270.9**	$1,135.0	$1,040.4	$ 805.6	$ 459.1
Operational Data					
Average rig utilization [2] [3]	**84%**	76%	96%	99%	98%
Fleet average dayrate [4]	**$ 59,000**	$ 59,600	$ 71,100	$ 55,700	$ 38,000
Number of active rigs (end of year) [3]	**33**	31	31	28	26
Turnkey wells drilled	**122**	76	77	107	82
Turnkey well completions	**27**	16	4	3	-
Number of employees (end of year)	**2,700**	2,400	2,700	2,500	2,100

[1] *In 1999 the Company increased the estimated useful lives of certain of its drilling rigs. The effect of the change was to reduce 1999 depreciation expense by approximately $27.2 million.*

[2] *The average rig utilization rate for a period is the ratio of days in the period during which the rigs were under contract to the total days in the period during which the rigs were available to work.*

[3] *Excludes the* Glomar Beaufort Sea I *concrete island drilling system, a currently inactive, special-purpose mobile offshore rig designed for Arctic operations.*

[4] *Contract drilling revenues less non-rig related revenues divided by the aggregate contract days, adjusted to exclude days under contract at zero dayrate.*

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Global Marine Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Global Marine Inc. and subsidiaries (the "Company") at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



Houston, Texas
February 16, 2001

CONSOLIDATED STATEMENT OF INCOME

(In millions, except per-share data)	Year Ended December 31, **2000**	1999	1998
Revenues:			
Contract drilling	**$ 584.1**	$ 507.7	$ 742.4
Drilling management	**435.6**	275.0	416.0
Oil and gas	**20.1**	8.3	3.8
Total revenues	**1,039.8**	791.0	1,162.2
Expenses:			
Contract drilling	**299.3**	271.1	280.4
Drilling management	**413.8**	261.5	446.4
Oil and gas	**3.4**	2.7	1.9
Depreciation, depletion, and amortization	**107.0**	88.8	103.9
Restructure costs	**5.2**	-	-
General and administrative	**22.6**	23.6	19.1
	851.3	647.7	851.7
Operating income	**188.5**	143.3	310.5
Other income (expense):			
Interest expense	**(63.6)**	(56.6)	(46.9)
Interest capitalized	**26.4**	25.9	17.2
Interest income	**4.0**	2.7	3.3
Total other income (expense)	**(33.2)**	(28.0)	(26.4)
Income before income taxes	**155.3**	115.3	284.1
Provision for income taxes:			
Current income tax provision	**12.4**	3.4	18.5
Deferred income tax provision	**29.0**	22.4	42.3
Total provision for income taxes	**41.4**	25.8	60.8
Net income	**$ 113.9**	$ 89.5	$ 223.3
Earnings per common share:			
Basic	**$ 0.65**	$ 0.51	$ 1.29
Diluted	**$ 0.64**	$ 0.51	$ 1.27

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

($ in millions)	December 31, **2000**	1999
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 144.3**	$ 83.3
Accounts receivable, less allowance for doubtful accounts of $4.7 in 2000 and $4.1 in 1999	**189.7**	101.1
Costs incurred on turnkey drilling contracts in progress	**11.2**	12.9
Prepaid expenses	**8.2**	11.2
Future income tax benefits	**50.0**	-
Other current assets	**1.4**	4.5
Total current assets	**404.8**	213.0
Properties and equipment:		
Rigs and drilling equipment, less accumulated depreciation of $546.9 in 2000 and $450.2 in 1999	**1,933.6**	1,225.8
Construction in progress	**-**	632.2
Oil and gas properties, full-cost method, less accumulated depreciation, depletion, and amortization of $18.5 in 2000 and $16.3 in 1999	**6.5**	10.6
Net properties and equipment	**1,940.1**	1,868.6
Future income tax benefits	**20.1**	90.7
Other assets	**31.8**	92.2
Total assets	**$2,396.8**	$2,264.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	**$ -**	$ 7.9
Accounts payable	**116.7**	94.0
Accrued compensation and related employee costs	**34.5**	21.6
Accrued income taxes	**12.0**	6.1
Accrued interest	**8.9**	10.7
Other accrued liabilities	**11.2**	9.3
Total current liabilities	**183.3**	149.6
Long-term debt	**901.3**	937.8
Capital lease obligation	**17.3**	17.5
Other long-term liabilities	**24.0**	24.6
Commitments and contingencies (Note 4)	-	-
Shareholders' equity:		
Preferred stock, $0.01 par value, 10 million shares authorized, no shares issued or outstanding	-	-
Common stock, $0.10 par value, 300 million shares authorized, 176,021,490 shares and 174,421,339 shares issued and outstanding at December 31, 2000 and 1999, respectively	**17.6**	17.4
Additional paid-in capital	**350.1**	328.6
Retained earnings	**905.0**	791.1
Accumulated other comprehensive loss	**(1.8)**	(2.1)
Total shareholders' equity	**1,270.9**	1,135.0
Total liabilities and shareholders' equity	**$2,396.8**	$2,264.5

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)	Year Ended December 31, 2000	1999	1998
Cash flows from operating activities:			
Net income	**$ 113.9**	$ 89.5	$ 223.3
Adjustments to reconcile net income to net cash flow provided by operating activities:			
Depreciation, depletion, and amortization	**107.0**	88.8	103.9
Deferred income taxes	**29.0**	22.4	42.3
Decrease (increase) in noncurrent receivables	**52.1**	8.0	(67.7)
Increase (decrease) in accounts payable	**22.7**	(5.0)	(16.5)
Increase (decrease) in accrued liabilities	**18.9**	(5.2)	(11.5)
Decrease (increase) in other current assets	**5.8**	7.5	(9.7)
Decrease (increase) in costs incurred on turnkey drilling contracts in progress	**1.7**	(6.3)	5.1
(Increase) decrease in accounts receivable	**(89.3)**	61.1	(13.3)
Other, net	**18.8**	11.1	2.1
Net cash flow provided by operating activities	**280.6**	271.9	258.0
Cash flows from investing activities:			
Capital expenditures	**(177.8)**	(448.1)	(637.7)
Proceeds from sales of properties and equipment	**3.0**	6.4	3.7
Proceeds from maturities of held-to-maturity securities	**0.3**	-	2.8
Purchases of held-to-maturity securities	**-**	(0.3)	(1.1)
Net cash flow used in investing activities	**(174.5)**	(442.0)	(632.3)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	**754.2**	604.0	621.0
Reductions of long-term debt	**(804.3)**	(409.1)	(270.0)
Proceeds from exercises of employee stock options	**14.0**	3.4	4.4
Debt issue costs	**(7.2)**	-	(2.9)
Other	**(1.8)**	(1.8)	(0.2)
Net cash flow (used in) provided by financing activities	**(45.1)**	196.5	352.3
Increase (decrease) in cash and cash equivalents	**61.0**	26.4	(22.0)
Cash and cash equivalents at beginning of year	**83.3**	56.9	78.9
Cash and cash equivalents at end of year	**$ 144.3**	$ 83.3	$ 56.9
Supplemental cash flow information:			
Interest paid, net of amounts capitalized	**$ 29.5**	$ 26.2	$ 23.9
Income taxes paid, net of refunds	**$ 6.6**	$ 9.4	$ 25.9

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

($ in millions)	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 1997	172,202,785	$ 17.2	$ 310.1	$ 478.3		$ 805.6
Net income	-	-	-	223.3		223.3
Exercise of employee stock options	991,018	0.1	4.4	-		4.5
Stock issued under other benefit plans	178,162	-	4.4	-		4.4
Stock canceled	(3,581)	-	(0.1)	-		(0.1)
Income tax benefit from stock option exercises	-	-	2.7	-		2.7
Balance at December 31, 1998	173,368,384	17.3	321.5	701.6		1,040.4
Net income	-	-	-	89.5		89.5
Minimum pension liability	-	-	-	-	$ (2.3)	(2.3)
Unrealized gains on securities	-	-	-	-	0.2	0.2
Comprehensive income	-	-	-	-	-	87.4
Exercise of employee stock options	996,952	0.1	3.4	-	-	3.5
Stock issued under other benefit plans	82,187	-	0.7	-	-	0.7
Stock canceled	(26,184)	-	(0.3)	-	-	(0.3)
Income tax benefit from stock option exercises	-	-	3.3	-	-	3.3
Balance at December 31, 1999	174,421,339	17.4	328.6	791.1	(2.1)	1,135.0
Net income	-	-	-	**113.9**	-	**113.9**
Minimum pension liability	-	-	-	-	**0.8**	**0.8**
Unrealized loss on securities	-	-	-	-	**(0.5)**	**(0.5)**
Comprehensive income	-	-	-	-	-	**114.2**
Exercise of employee stock options	**1,608,160**	**0.2**	**13.9**	-	-	**14.1**
Stock issued under other benefit plans	**4,405**	-	**0.1**	-	-	**0.1**
Stock canceled	**(12,414)**	-	**(0.1)**	-	-	**(0.1)**
Income tax benefit from stock option exercises	-	-	**7.6**	-	-	**7.6**
Balance at December 31, 2000	**176,021,490**	**$ 17.6**	**$ 350.1**	**$ 905.0**	**$ (1.8)**	**$1,270.9**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Global Marine Inc. and its majority-owned subsidiaries. Intercompany accounts and transactions have been eliminated. Unless the context otherwise requires, the term "Company" refers to Global Marine Inc. and its consolidated subsidiaries.

Cash Equivalents

Cash equivalents consist of all highly liquid debt instruments with remaining maturities of three months or less at the time of purchase.

Properties and Depreciation

Rigs and Drilling Equipment. Capitalized costs of rigs and drilling equipment include all costs incurred in the acquisition of capital assets including allocations of interest costs incurred during periods that assets are under construction or refurbishment. Expenditures for maintenance and repairs are charged to expense as incurred. Costs of property sold or retired and the related accumulated depreciation are removed from the accounts; resulting gains or losses are included in income.

Prior to January 1, 1999, jackup drilling rigs were depreciated over lives of 25 years, with salvage values of $0.5 million per rig. Semisubmersible drilling rigs and drillships, other than the *Glomar Explorer*, were depreciated over lives ranging from 10 to 20 years, with salvage values of $1.0 million per rig. Effective January 1, 1999, the Company increased the estimated useful lives of its jackups and semisubmersibles to 30 years. The effect of the change was to decrease 1999 depreciation expense by approximately $27.2 million.

The *Glomar Explorer* is being depreciated over the time that remained on its 30-year lease as of the date it entered service following its conversion to a drillship, or approximately 28 years, with no salvage value.

Rigs and drilling equipment included $1.0 billion and $246.8 million of assets recorded under capital leases at December 31, 2000 and 1999, respectively. Construction in progress at December 31, 1999, included $628.5 million of assets subject to capital leases. Accumulated amortization of assets under capital leases totaled $36.2 million at December 31, 2000, and $12.1 million at December 31, 1999.

Oil and Gas Properties. The Company uses the full-cost method of accounting for oil and gas exploration and development costs. Under this method of accounting, the Company capitalizes all costs incurred in the acquisition, exploration, and development of oil and gas properties and amortizes such costs, together with estimated future development and dismantlement costs, using the units-of-production method.

Revenue Recognition

The Company's contract drilling business provides fully-crewed rigs to customers on a daily-rate (i.e., "dayrate") basis. Dayrate contracts can be for a specified period of time or the time required to drill a specified well or number of wells. Revenues and expenses from dayrate drilling operations, which are classified under contract drilling services, are recognized on a per-day basis as the work progresses. Lump-sum fees received as compensation for the cost of relocating drilling rigs from one major operating area to another, whether received up-front or upon termination of the drilling contract, are recognized as earned, which is generally over the term of the related drilling contract.

The Company also designs and executes specific offshore drilling or well-completion programs for customers at fixed prices under short-term "turnkey" contracts. Revenues and expenses from turnkey contracts, which are classified under drilling management services, are earned and recognized upon completion of each contract using the completed contract method of accounting.

Foreign Currency Transactions

The United States dollar is the functional currency for all of the Company's operations. Realized and unrealized foreign currency transaction gains and losses are recorded in income.

The Company may be exposed to the risk of foreign currency exchange losses in connection with its foreign operations. Such losses are the result of holding net monetary assets (cash and receivables in excess of payables) denominated in foreign currencies during periods of a strengthening U.S. dollar. The Company attempts to lessen the impact of exchange rate changes by requiring customer payments to be primarily in U.S. dollars, by keeping foreign cash balances at minimal levels, and by not speculating in foreign currencies. The Company incurred a net foreign currency transaction loss of $1.3 million in 2000, a net transaction gain of $0.1 million in 1999, and a net transaction loss of $0.6 million in 1998.

Income Taxes

The Company intends to permanently reinvest in its business outside the United States the unremitted earnings of foreign subsidiaries not otherwise subject to U.S. taxation. As a result, the Company has not provided for deferred federal income taxes on such unremitted foreign earnings.

Stock-Based Compensation Plans

The Company accounts for its stock option and stock-based compensation plans using the intrinsic-value method prescribed by Accounting Principles Board ("APB") Opinion No. 25. Accordingly, the Company computes compensation cost for each employee stock option granted as the amount by which the quoted market price of the Company's common stock on the date of grant exceeds the amount the employee must pay to acquire the stock. The amount of compensation cost, if any, would be charged to income over the vesting period. With respect to

performance-based stock awards, under which the number of shares issued is dependent on the attainment of certain long-term performance goals, compensation expense is charged to income over the performance (vesting) period but is adjusted for changes in the market price of the stock during the period.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions. These estimates and assumptions affect the carrying values of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date and the amounts of revenues and expenses recognized during the period. Actual results could differ from such estimates.

Note 2 - Investments

At December 31, 2000 and 1999, the Company had investments in debt securities that were classified as held-to-maturity and carried at amortized cost. The fair value of such investments at December 31 by major type and by balance sheet classification are presented in the following table:

(In millions)	**2000**	1999
Commercial paper	**$ 101.0**	$ 11.7
Money market funds	**35.1**	57.5
Eurodollar time deposits	**1.4**	0.3
Repurchase agreements	**0.4**	4.4
	$ 137.9	$ 73.9
Cash and cash equivalents	**$ 137.9**	$ 73.6
Other current assets	**-**	0.3
	$ 137.9	$ 73.9

The fair value of investments in debt securities approximated their carrying value; therefore, there were no unrealized holding gains or losses as of December 31, 2000 or 1999. All investments in debt securities at December 31, 2000 and 1999, had remaining maturities of three months or less.

In addition, the Company had other investments in debt and equity securities classified as available-for-sale held in connection with certain nonqualified pension plans. These investments, which were included in other assets at December 31, are disclosed in the table which follows:

	2000			1999		
(In millions)	Cost	Unrealized Gain (Loss)	Fair Value	Cost	Unrealized Gain (Loss)	Fair Value
Fixed-income mutual funds	**$ 3.8**	**$ (0.1)**	**$ 3.7**	$ 4.3	$ (0.1)	$ 4.2
Equity mutual funds	**3.5**	**(0.2)**	**3.3**	3.5	0.3	3.8
	$ 7.3	**$ (0.3)**	**$ 7.0**	$ 7.8	$ 0.2	$ 8.0

Note 3 - Long-term Debt

Long-term debt as of December 31 consisted of the following:

(In millions)	**2000**	1999
7⅛% Notes due 2007, net of unamortized discount of $0.5 million at December 31, 2000 and 1999	**$ 299.5**	$ 299.5
7% Notes due 2028, net of unamortized discount of $3.5 million at December 31, 2000 and $3.7 million at December 31, 1999	**296.5**	296.3
Zero Coupon Convertible Debentures due 2020, net of unamortized discount of $294.7 million	**305.3**	-
Commercial paper	**-**	235.9
Borrowings under bank credit facilities	**-**	114.0
Total long-term debt, including current maturities	**901.3**	945.7
Less current maturities	**-**	7.9
Long-term debt	**$ 901.3**	$ 937.8

In June 2000 the Company completed a private placement of Zero Coupon Convertible Debentures due June 23, 2020, and received net proceeds of $292.6 million after deduction for legal, accounting, and underwriting fees. The Company used the proceeds of the debentures, plus available cash, to pay off outstanding commercial paper, which had been issued primarily to finance construction of the *Glomar C.R. Luigs* and *Glomar Jack Ryan* drillships, and for general corporate purposes.

The convertible debentures were issued at a price of $499.60 per debenture, which represents a yield to maturity of 3.5 percent per annum to reach an accreted value at maturity of $1,000 per debenture. The Company has the right to redeem the debentures in whole or in part on or after June 23, 2005, at a price equal to the issuance price plus accrued original issue discount through the date of redemption. Each debenture is convertible into 12.2182 shares of Global Marine Inc. common stock (7,330,920 total shares) at the option of the holder at any time prior to maturity, unless previously redeemed. Holders have the right to require the Company to repurchase the debentures on June 23, 2005, June 23, 2010, and June 23, 2015, at a price equal to the accreted value through the date of repurchase. The Company may pay the repurchase price with either cash or shares of the Company's common stock or a combination of cash and shares of common stock.

The Company has a $240 million committed, unsecured revolving bank credit facility expiring December 2002 and a commercial paper program under which unsecured debt may be issued at rates generally more favorable than under the bank credit facility. Aggregate availability for borrowings under the bank credit facility and commercial paper program is $240 million. As of December 31, 2000, there were no borrowings under the $240 million facility or the commercial paper program. The weighted average interest rates applicable to borrowings under bank credit facilities and the commercial paper program at December 31, 1999, were 6.983 percent and 6.668 percent, respectively.

No principal payments are required with respect to either the 7⅛% Notes or the 7% Notes prior to their final

maturity date. The Company may redeem the 7⅛% Notes and the 7% Notes in whole at any time, or in part from time to time, at a price equal to 100 percent of the principal amount thereof plus accrued interest, if any, to the date of redemption, plus a premium, if any, relating to the then-prevailing Treasury Yield and the remaining life of the notes.

The indentures relating to the Zero Coupon Convertible Debentures, 7⅛% Notes, and 7% Notes contain limitations on the Company's ability to incur indebtedness for borrowed money secured by certain liens and to engage in certain sale/leaseback transactions, among other things. The $240 million bank credit facility contains similar limitations, requires the Company to maintain minimum levels of net worth and interest coverage, and limits the Company's maximum debt as a percentage of capitalization.

All of the Company's debt is unsecured and unsubordinated and ranked equally in right of payment with all other unsecured and unsubordinated indebtedness of the Company.

Note 4 - Commitments and Contingencies

At December 31, 2000, the Company had under operating leases office space and equipment with remaining terms ranging from approximately one to five years. Some of the leases may be renewed at the Company's option, and some are subject to rent revisions based on the Consumer Price Index or increases in building operating costs. In addition, at December 31, 2000, the Company had under capital lease the *Glomar Explorer* drillship through 2026. Total rent expense was $114.4 million for 2000, $69.3 million for 1999, and $213.6 million for 1998. Included in rent expense was the rental of offshore drilling rigs used in the Company's turnkey operations totaling $108.4 million for 2000, $63.0 million for 1999, and $207.1 million for 1998.

Future minimum rental payments with respect to the Company's lease obligations as of December 31, 2000, were as follows:

(In millions)	Capital Lease	Operating Leases
Year ended December 31:		
2001	$ 1.8	$ 3.9
2002	1.8	3.2
2003	1.8	3.1
2004	1.8	3.0
2005	1.8	2.3
Later years	37.0	-
Total future minimum rental payments	46.0	$ 15.5
Less amount representing imputed interest	(26.9)	
Present value of future minimum rental payments under capital lease	19.1	
Less current portion included in accrued liabilities	(1.8)	
Long-term capital lease obligation	$ 17.3	

In 1998 the Company entered into fixed-price contracts with Harland and Wolff Shipbuilding and Heavy Industries Limited (the "Shipbuilder") totaling $315 million for the construction of two dynamically positioned, ultra-deepwater drillships, the *Glomar C.R. Luigs* and the *Glomar Jack Ryan*, originally scheduled for delivery in the fourth quarter of 1999 and first quarter of 2000, respectively. Pursuant to two 20-year, capital lease agreements, the Company subsequently novated the construction contracts for the drillships to two financial institutions (the "Lessors"), which now own the drillships and have agreed to lease them to the Company. The Company has deposited with three large foreign banks (the "Payment Banks") amounts equal to the progress payments that the Lessors were required to make under the construction contracts, less a lease benefit of approximately $62 million. In exchange for the deposits, the Payment Banks have assumed liability for making rental payments required under the leases, and have legally released the Company as the primary obligor of such rental payments. Accordingly, the Company has recorded no capital lease obligations on its balance sheet with respect to the two drillships.

The Company acted as the Lessors' construction supervisor and has paid on behalf of the Lessors, or provided for the Lessors' payment of, all amounts it believes were required under the terms of the contracts, including payments for all approved change orders.

In October 1999 the Company received a claim from the Shipbuilder alleging breach of contract in connection with the Company's obligations regarding design of the drillships, the timely delivery to the Shipbuilder of owner-furnished equipment, and design change orders. In its claim, the Shipbuilder also requested additional compensation for increases in the drillships' steel weight. The amount of the Shipbuilder's claim in excess of the contract price totals £133 million ($192 million). With the exception of a small portion of the steel-weight claim, the Company believes that the claim is totally without merit. The contracts provide that such claims are to be resolved through arbitration in London.

Because the Company was concerned about the Shipbuilder's financial viability and the satisfactory completion of the drillships in a timely manner, in November 1999 the Company agreed to provide additional funding to the Shipbuilder for completion of the two drillships in exchange for certain assurances by the Shipbuilder and its parent, Fred. Olsen Energy ASA (the "Funding Agreement").

Under the terms of the Funding Agreement, the Company released two cash collateralized letters of credit, giving the Shipbuilder access to $40 million of its own funds. In addition, the Company agreed to advance to the Shipbuilder, without prejudice to any issues of liability under the shipbuilding contracts, £57 million above the drillships' $315 million contract price. The Company also agreed to advance amounts equal to half of subsequent cost overruns until the Company's total advances under the Funding Agreement reached £65 million. As of December 31, 2000, the Company had advanced £63.9 million ($103.1 million) under the Funding Agreement, including £6.9 million ($10.5 million) in connection with its share of cost overruns. The Funding Agreement provided that if the maximum advances of £65 million were made by the

Company, the Shipbuilder's parent, Fred. Olsen Energy ASA, would provide all additional funds necessary to keep the Shipbuilder solvent and working in an expeditious and diligent manner and to enable it to deliver the two completed drillships. In addition, the Shipbuilder's parent agreed to pay, under certain circumstances, up to £3 million ($4.3 million) of the Shipbuilder's warranty on the two drillships. The *Glomar C.R. Luigs* and the *Glomar Jack Ryan* began operating under contract in April and December 2000, respectively.

The Funding Agreement did not settle any portion of the Shipbuilder's claim of £133 million ($192 million). The agreement provides that the Shipbuilder will repay to the Company amounts advanced under the Funding Agreement to the extent the amount of the advanced funds exceeds any arbitration award in favor of the Shipbuilder and that the Company will pay the Shipbuilder to the extent any arbitration award in favor of the Shipbuilder exceeds the funds so advanced. In view of the current financial condition of the Shipbuilder, collection from the Shipbuilder of any amounts to which the Company may be entitled under the Funding Agreement is doubtful.

On August 1, 2000, the Company delivered notice to the Shipbuilder of its intent to take possession of the *Glomar Jack Ryan* following the Shipbuilder's failure to timely deliver the vessel in accordance with the construction contract as amended by the Funding Agreement. Following the Shipbuilder's refusal to grant possession of the vessel to the Company, the Company filed an application for a mandatory injunction with the London Commercial Court requesting that the Shipbuilder be ordered to do so. The Court granted the injunction on August 11, 2000, on the condition that the Company post a bond in the amount of $100 million to secure the Shipbuilder's lien for the delivery installment in the amount of $35.8 million, inclusive of $4.8 million for change orders and shipyard expenses, and the unsecured balance of the Shipbuilder's previously disclosed claims.

In September 2000 the Shipbuilder requested that the arbitration panel consider whether the Company had an obligation to pay the final delivery installment upon completion of the vessel even if the Shipbuilder was in default of its obligation to deliver the vessel, as the Company contends. The arbitration panel determined that the contract did so obligate the Company to make the final delivery installment and issued a preliminary award requiring the payment to the Shipbuilder of $31.8 million of the $35.8 million contractual delivery installment. The Company appealed that decision to the Commercial Court in London and was required to deposit the $31.8 million in the Registry of the Court. In November 2000 the Commercial Court overturned the decision of the arbitration panel and ordered the release of the deposit from the Commercial Court. The Shipbuilder has now appealed that decision to the Court of Appeals, which is scheduled to hear arguments in late March 2001. If this issue is ultimately decided against the interest of the Company, or if it is determined that the Shipbuilder was not in default of its obligation to deliver the vessel, then the delivery installment will have to be paid. The net effect in that case will be that the Company will have provided for the payment of the full contract price of $315 million plus the cost of certain agreed change orders and related expenses. This price excludes amounts totaling $103.1 million that the Company has advanced under the Funding Agreement. The Company's liability for the previously disclosed claims and the Company advances under the Funding Agreement will be determined in the arbitration proceedings that are currently underway in London.

In December 2000 the Company settled its dispute with a subsidiary of Transocean Sedco Forex ("Transocean") with respect to a bareboat charter agreement for the drilling rig, *Glomar Grand Banks*. The Company had assumed rights to the bareboat charter at the time it acquired ownership of the rig in 1997. At issue were (i) the date of termination of the charter, (ii) the condition of the rig upon its return to the Company, and (iii) the charterer's liability to pay additional dayrate. Under the terms of the settlement, Transocean paid the Company $67.5 million in cash in December 2000 and waived its claim against the Company in the amount of $2.0 million. The Company applied $63.0 million of the proceeds to reduce noncurrent accounts receivable with the remainder recorded as a reduction of the Company's cost basis in the rig.

The Company and a number of other participants in the offshore contract drilling business in the Gulf of Mexico are defendants in a purported antitrust class action lawsuit filed in the federal district court in Galveston, Texas. The plaintiff alleges a conspiracy among the defendants to depress wages and benefits paid to their offshore employees. The plaintiff seeks an unspecified amount of treble damages and other relief on behalf of himself and an alleged class of offshore workers. While the Company vigorously denies these allegations and does not expect that this matter will have a material adverse effect on its business or financial position, results of operations or cash flows, the Company cannot provide any assurance as to its outcome.

The Company is involved in various lawsuits resulting from personal injury and property damage. In the opinion of management, resolution of these matters will not have a material adverse effect on the Company's results of operations, financial position, or cash flows.

Note 5 - Accumulated Other Comprehensive Loss

The components of the accumulated other comprehensive loss were as follows:

(In millions)	Unrealized Gain (Loss) on Securities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Loss
Balance at December 31, 1998	$ -	$ -	$ -
Net change for the year	0.2	(2.3)	(2.1)
Balance at December 31, 1999	0.2	(2.3)	(2.1)
Net change for the year	**(0.5)**	**0.8**	**0.3**
Balance at December 31, 2000	**$ (0.3)**	**$ (1.5)**	**$ (1.8)**

Note 6 - Financial Instruments

Concentrations of Credit Risk

The market for the Company's services and products is the offshore oil and gas industry, and the Company's customers consist primarily of major integrated international oil companies and independent oil and gas producers. The Company performs ongoing credit evaluations of its customers and generally does not require material collateral. The Company maintains reserves for potential credit losses, and such losses have been within management's expectations.

The Company had cash deposits concentrated primarily in five major banks at December 31, 2000 and 1999. In addition, the Company had commercial paper, money-market funds, repurchase agreements, and Eurodollar time deposits with a variety of financial institutions with strong credit ratings. As a result of the foregoing, the Company believes that credit risk in such instruments is minimal.

Fair Values of Financial Instruments

The estimated fair value of the Company's $901.3 million carrying value of long-term debt approximated $886.6 million at December 31, 2000. At December 31, 1999, the estimated fair value of the Company's $945.7 million carrying value of long-term debt was $896.3 million. Fair values were estimated based on prices of similar securities with comparable maturities and credit risks. The fair values of the Company's cash equivalents, marketable securities, trade receivables, and trade payables approximated their carrying values due to the short-term nature of these instruments (see Note 2).

Note 7 - Stock-Based Compensation Plans

The Company has stock-based compensation plans under which it may grant shares of the Company's common stock or options to purchase a fixed number of shares of such stock. Under one such plan for outside directors, one half of each stock option grant becomes exercisable one year after the grant date with the remainder exercisable after two years. Under all other plans, stock options become exercisable in increments of 25 percent each year beginning one year after the grant date. Stock options expire ten years after the grant date and become exercisable in full if more than 50 percent of the Company's outstanding common stock is acquired by a person or a single group of persons. At December 31, 2000, there were 8,127,819 shares available for future grants under such plans.

Under certain plans, the Company may also grant shares of common stock at nominal or no cost. Under such plans, the Company has granted to certain employees, at nominal or no cost, a variable number of shares of common stock, the exact number being dependent on the Company's attainment of certain long-term performance goals ("performance-based stock awards").

Estimates of fair values of stock options and performance-based stock awards on the grant dates in the disclosures which follow were computed using the Black-Scholes option-pricing model based on the following assumptions:

	2000	1999	1998
Expected price volatility range	**53% to 56%**	54% to 67%	49% to 53%
Risk-free interest rate range	**5.9% to 6.7%**	5.0% to 5.9%	4.4% to 5.7%
Expected dividends	**none**	none	none
Expected life of stock options	**5 years**	5 years	5 years
Expected life of performance-based stock awards	**3 years**	3 years	3 years

Stock Options

A summary of the status of stock options granted is presented below:

	Number Of Shares Under Option	Weighted Average Exercise Price
Shares under option at December 31, 1997	6,429,807	$ 8.01
Granted	2,083,400	$ 23.27
Exercised	(991,018)	$ 4.56
Canceled	(139,100)	$ 19.96
Shares under option at December 31, 1998	7,383,089	$ 12.55
Granted	3,242,250	$ 9.65
Exercised	(996,952)	$ 3.60
Canceled	(164,926)	$ 18.15
Shares under option at December 31, 1999	9,463,461	$ 12.40
Granted	**2,752,200**	**$ 22.02**
Exercised	**(1,608,160)**	**$ 8.84**
Canceled	**(208,650)**	**$ 19.52**
Shares under option at December 31, 2000	**10,398,851**	**$ 15.36**
Options exercisable at December 31,		
1998	3,972,889	$ 5.28
1999	3,977,054	$ 9.05
2000	**4,025,764**	**$ 11.94**

All stock options granted in 1998 through 2000 had exercise prices equal to the market price of the Company's common stock on the date of grant. The weighted average per-share fair value of options as of the grant date was $11.73 in 2000, $5.52 in 1999, and $11.54 in 1998.

The following table summarizes information with respect to stock options outstanding at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/00	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/00	Weighted Average Exercise Price
$1.6875 to $3.8125	993,809	2.7 years	$ 2.99	993,809	$ 2.99
$4.125 to $7.6875	2,959,033	6.9 years	$ 6.89	1,017,346	$ 5.37
$9.3125 to $13.00	727,798	6.0 years	$ 10.51	580,848	$ 9.97
$14.5625 to $20.75	3,267,688	8.4 years	$ 19.26	566,663	$ 19.76
$24.9375 to $34.1875	2,450,523	7.8 years	$ 26.83	867,098	$ 26.13
	10,398,851	**7.1 years**	**$ 15.36**	**4,025,764**	**$ 11.94**

Performance-Based Stock Awards

Under certain plans, the Company has offered shares of Company stock to certain key employees at nominal or no cost to the employee. The exact number of shares that each employee will receive is dependent on Company performance over three-year periods as measured against performance goals with respect to net income and cash flow, among other measures. The performance period applicable to each offer ends on December 31 of the second full year following the year of the grant. A summary of the status of performance-based stock awards is presented in the table which follows:

	2000	1999	1998
Number of contingent shares at beginning of year	**496,884**	446,356	428,668
Granted	**215,000**	225,000	315,000
Issued	**-**	(82,187)	(178,162)
Canceled	**(280,496)**	(92,285)	(119,150)
Number of contingent shares at end of year	**431,388**	496,884	446,356
Shares vested at December 31	**-**	-	97,479
Fair value at grant date	**$19.32**	$10.54	$24.94

Pro Forma Disclosures

As discussed in Note 1 under "Stock-Based Compensation Plans," the Company accounts for its stock-based compensation plans under APB Opinion No. 25. Accordingly, no compensation cost has been recognized for any of the Company's outstanding stock options, all of which have exercise prices equal to the market price of the stock on the date of grant. The amount of compensation cost included in income for the Company's performance-based stock awards was $3.4 million in 2000, $1.0 million in 1999, and a credit of $1.2 million in 1998. Had compensation cost for the Company's stock-based compensation plans been determined based on fair values as of the dates of grant, the Company's net income and earnings per share would have been reported as follows:

(In millions, except per-share amounts)		**2000**	1999	1998
Net income:	As reported	**$113.9**	$ 89.5	$223.3
	Pro forma	**$101.5**	$ 79.6	$215.0
Basic earnings per share:	As reported	**$ 0.65**	$ 0.51	$ 1.29
	Pro forma	**$ 0.58**	$ 0.46	$ 1.24
Diluted earnings per share:	As reported	**$ 0.64**	$ 0.51	$ 1.27
	Pro forma	**$ 0.57**	$ 0.45	$ 1.22

The pro forma figures in the preceding table may not be representative of pro forma amounts in future years.

Note 8 - Retirement Plans

Pensions

The Company has defined benefit pension plans covering all of its U.S. employees and a portion of its non-U.S. employees. For the most part, benefits are based on the employee's length of service and average earnings for the five highest consecutive calendar years of compensation during the last fifteen years of service. Substantially all benefits are paid from funds previously provided to trustees. The Company is the sole contributor to the plans, and its funding objective is to fund participants' benefits under the plans as they accrue, taking into consideration future salary increases. The components of net periodic pension benefit cost were as follows:

(In millions)	**2000**	1999	1998
Service cost - benefits earned during the period	**$ 4.5**	$ 4.7	$ 4.4
Interest cost on projected benefit obligation	**7.5**	6.9	6.5
Expected return on plan assets	**(8.9)**	(7.4)	(6.7)
Recognized actuarial loss	**0.8**	1.8	1.5
Net periodic pension benefit cost	**$ 3.9**	$ 6.0	$ 5.7

The following table shows the changes in the projected benefit obligation and assets for all plans for the year ended December 31 and a reconciliation of the plans' funded status at year end.

(In millions)	**2000**	1999
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$102.3**	$107.0
Service cost	**4.5**	4.7
Interest cost	**7.5**	6.9
Actuarial gain	**(0.1)**	(13.1)
Benefits paid	**(4.7)**	(3.2)
Projected benefit obligation at end of year	**109.5**	102.3
Change in plan assets:		
Fair value of plan assets at beginning of year	**97.1**	81.0
Actual return on plan assets	**(6.4)**	14.4
Employer contributions	**5.9**	4.9
Benefits paid	**(4.7)**	(3.2)
Fair value of plan assets at end of year	**91.9**	97.1
Reconciliation of funded status:		
Funded status at end of year	**(17.6)**	(5.2)
Unrecognized net loss	**17.5**	2.7
Net amount recognized	**$ (0.1)**	$ (2.5)
Amounts recognized in the balance sheet consist of:		
Prepaid benefit cost	**$ 8.4**	$ 5.9
Accrued benefit liability	**(10.8)**	(10.7)
Accumulated other comprehensive loss	**2.3**	2.3
Net amount recognized	**$ (0.1)**	$ (2.5)

The following table provides information related to those plans that were underfunded as of December 31. In the table, the projected benefit obligation ("PBO") is the actuarially computed present value of earned benefits based on service to date and includes the estimated effect of future salary increases. The accumulated benefit obligation ("ABO") is the actuarially computed present value of earned benefits based on service to date, but differs from the PBO in that it is based on current salary levels.

(In millions)	**2000**	1999
Projected benefit obligation	**$ 11.5**	$ 12.9
Accumulated benefit obligation	**$ 10.5**	$ 10.6
Fair value of plan assets	**$ -**	$ -

The Company has established grantor trusts to provide funding for benefits payable under certain nonqualified plans. Assets in the trusts, which are irrevocable and can only be used to pay such benefits, with certain exceptions, are excluded from plan assets in the preceding tables in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." The fair market value of such assets was $7.0 million at December 31, 2000, and $8.0 million at December 31, 1999. (See Note 2.)

The expected long-term rate of return on plan assets used to compute pension cost was 9.0 percent for 2000, 1999, and 1998. The assumed rate of increase in future compensation levels was 6.0 percent for 2000 and 1999, and 5.6 percent for 1998. The discount rate used to compute the projected benefit obligation was 7.5 percent for 2000 and 1999, and 6.75 percent for 1998.

The Company has a defined contribution savings plan in which substantially all of the Company's U.S. employees are eligible to participate. Company contributions to the savings plan are based on the amount of employee contributions. Effective July 1, 1998, the Company increased its matching contribution to 100 percent of each participant's first six percent of compensation contributed to the plan. Charges to expense with respect to this plan totaled $3.9 million for 2000, $3.6 million for 1999, and $2.2 million for 1998.

Other Postretirement Benefits

The Company provides term life insurance to retirees and, for a period generally ending two years following retirement, health care benefits to retirees and their covered dependents. Generally, employees who have reached the age of 55 and have rendered a minimum of five years of service are eligible for such retirement benefits. For the most part, health care benefits are contributory while life insurance benefits are non-contributory. Liabilities for postretirement health care and life insurance benefits are not material to the Company's results of operations or financial position.

Note 9 - Restructure Costs

In the first quarter of 2000, the Company implemented a restructuring designed to streamline its organization and improve efficiency. The restructuring involved a workforce reduction of approximately 89 positions, a consolidation of administrative offices in Houston and Europe, and closure of a materials control facility in Houston. The employee functions affected were primarily corporate support in nature and included materials control, engineering, accounting, and information technology, among others. Approximately 80 percent of the affected positions were located in Houston, and the remaining 20 percent were located in Europe. The Company recorded a $5.2 million pretax charge in the first quarter of 2000 in connection with the restructuring, consisting of $4.3 million for employee severance costs and $0.9 million for office and facility closures. Cash payments for severance are being paid over various periods generally ranging from six weeks to twelve months from the date of termination, based on salary and length of service. Cash payments in 2000 under the restructuring totaled $3.2 million, consisting of $3.0 million for employee severance and $0.2 million for facility closures.

Note 10 - Income Taxes

Income before income taxes was comprised of the following:

(In millions)	**2000**	1999	1998
United States	**$ 103.4**	$ 38.1	$ 61.9
Foreign	**51.9**	77.2	222.2
Income before income taxes	**$ 155.3**	$ 115.3	$ 284.1

The provision for income taxes consisted of the following:

(In millions)	**2000**	1999	1998
Current - Foreign	**$ 11.2**	$ 8.0	$ 15.8
- U.S. federal	**1.2**	(4.6)	2.2
- State	**-**	-	0.5
	12.4	3.4	18.5
Deferred - U.S. federal	**31.2**	22.4	42.3
- Foreign	**(2.2)**	-	-
	29.0	22.4	42.3
Provision for income taxes	**$ 41.4**	$ 25.8	$ 60.8

A reconciliation of the differences between taxes on income before extraordinary item computed at the United States federal statutory rate of 35 percent and the Company's reported provision for income taxes follows:

($ in millions)	**2000**	1999	1998
Income tax provision at statutory rate	**$ 54.4**	$ 40.4	$ 99.4
Taxes on foreign earnings at less than the U.S. rate	**(9.7)**	(18.6)	(38.2)
Permanent differences	**(0.1)**	(1.3)	0.6
Other, net	**(3.2)**	5.3	(1.0)
Provision for income taxes	**$ 41.4**	$ 25.8	$ 60.8
Effective tax rate	**27%**	22%	21%

The Company intends to permanently reinvest in its business outside the United States the unremitted earnings of foreign subsidiaries not otherwise subject to U.S. taxation. As a result, the Company has not provided for deferred U.S. federal income taxes on $263.5 million of cumulative unremitted foreign earnings at December 31, 2000. It is not practicable to estimate the amount of deferred income tax expense associated with these unremitted earnings.

Deferred tax assets and liabilities are recorded in recognition of the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The significant components of the Company's deferred tax assets and liabilities as of December 31 were as follows:

(In millions)	**2000**	1999
Deferred tax assets:		
Net operating loss carryforwards	**$ 206.8**	$ 208.4
Tax credit carryforwards	**15.5**	14.6
Accrued expenses not currently deductible	**10.6**	8.7
Other	**12.5**	10.9
	245.4	242.6
Less: Valuation allowance	**(40.7)**	(36.6)
Deferred tax assets, net of valuation allowance	**204.7**	206.0
Deferred tax liabilities:		
Depreciation and depletion for tax in excess of book expense	**127.3**	106.8
Tax benefit transfers	**7.3**	8.5
Total deferred tax liabilities	**134.6**	115.3
Net future income tax benefit recognized in consolidated balance sheet	**$ 70.1**	$ 90.7

The Company has established a valuation allowance primarily due to the uncertainty of realizing certain net operating loss ("NOL") and other carryforwards. The net increase in the valuation allowance from 1999 to 2000 was primarily due to an increase in non-expiring NOL carryforwards in Trinidad and Tobago, offset somewhat by a partial release of United Kingdom valuation allowance and the expiration of U.S. tax credits carried forward.

At December 31, 2000, the Company had $498.8 million of U.S. NOL carryforwards and $15.5 million of non-expiring alternative minimum tax credit carryforwards, which can be used to reduce the Company's U.S. federal income taxes payable in future years. The U.S. NOL carryforwards expire as follows:

(In millions)	
Year ended December 31:	
2005	$320.6
2006	82.8
2007	19.6
2008	34.1
2009	18.8
2019	22.9
	$498.8

In addition, at December 31, 2000, the Company had $86.6 million and $17.8 million of non-expiring NOL carryforwards in the United Kingdom and Trinidad and Tobago, respectively.

The Company's ability to realize the benefit of its deferred tax asset requires that the Company achieve certain future earnings levels prior to the expiration of its NOL carryforwards. The Company could be required to record an additional valuation allowance against the future tax benefit of its NOL carryforwards if market conditions deteriorate and future earnings are below, or projected to be below, its current estimates.

The Company's U.S. NOL carryforwards are subject to review and potential disallowance by the Internal Revenue Service ("IRS") upon audit of the Company's federal income tax returns. Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, may impair the future availability of the NOL carryforwards if there is a change in ownership of more than 50 percent of the Company's common stock. This limitation, if it applied, would limit the utilization of the NOL in each taxable year to an amount equal to the product of the federal long-term tax-exempt bond rate prescribed monthly by the IRS and the fair market value of all the Company's stock at the time of the ownership change. The Company believes that it has not undergone a greater-than-50-percent ownership change and that its carryforwards are currently available for utilization without limitation.

Note 11 - Earnings Per Share

A reconciliation of the numerators and denominators of the basic and diluted per-share computations for net income follows:

($ in millions, except per-share amounts)	**2000**	1999	1998
Net income (numerator):	**$ 113.9**	$ 89.5	$ 223.3
Shares (denominator):			
Shares - Basic	**175,339,730**	173,991,869	173,040,584
Effect of employee stock options	**4,003,353**	2,782,710	2,744,611
Shares - Diluted	**179,343,083**	176,774,579	175,785,195
Earnings per share:			
Basic	**$ 0.65**	$ 0.51	$ 1.29
Diluted	**$ 0.64**	$ 0.51	$ 1.27

The computation of diluted earnings per share excludes outstanding stock options with exercise prices greater than the average market price of the Company's common stock for the year, because the inclusion of such options would be antidilutive. The number of antidilutive options that were excluded from diluted earnings per share and could potentially dilute basic earnings per share in the future were 918,257 shares in 2000, 3,413,487 shares in 1999, and 2,766,227 shares

in 1998. In addition, diluted earnings per share for 2000 excludes 7,330,920 potentially dilutive shares issuable upon conversion of the Company's Zero Coupon Convertible Debentures because the inclusion of such shares would be antidilutive given the level of net income for 2000.

As discussed in Note 3, holders of the Zero Coupon Convertible Debentures have the right to require the Company to repurchase the debentures on June 23, 2005, June 23, 2010, and June 23, 2015. The Company may pay the repurchase price with either cash or shares of the Company's common stock or a combination thereof. The Company does not anticipate using common stock to satisfy any such future purchase obligation.

Note 12 - Segment and Geographic Information

The Company has three lines of business, each organized along the basis of services and products and each with a separate management team. The Company's three lines of business are reported as separate operating segments and consist of contract drilling, drilling management services, and oil and gas. The Company's contract drilling business provides fully-manned, mobile offshore drilling rigs to oil and gas operators on a daily-rate basis and is also referred to as dayrate drilling. The drilling management services business, also referred to as turnkey drilling, designs, develops, and executes specific offshore drilling programs and delivers a logged or loggable hole to an agreed depth for a guaranteed price. The Company's oil and gas business participates in exploration and production activities.

The Company evaluates and measures segment performance on the basis of operating income. Segment operating income is inclusive of intersegment revenues. Such revenues, which have been eliminated from the consolidated totals, are recorded at transfer prices which are intended to approximate the prices charged to external customers. Segment operating income consists of revenues less the related operating costs and expenses and excludes interest expense, interest income, and corporate expenses. Segment assets consist of all current and long-lived assets, exclusive of affiliate receivables and investments.

Information by operating segment, together with reconciliations to the consolidated totals, is presented in the following table:

(In millions)	Contract Drilling	Drilling Management Services	Oil and Gas	Corporate	Eliminations and Other	Consolidated
Revenues from external customers						
2000	**$ 584.1**	**$435.6**	**$ 20.1**			**$1,039.8**
1999	507.7	275.0	8.3			791.0
1998	742.4	416.0	3.8			1,162.2
Intersegment revenues						
2000	**$ 5.1**	**$ 10.0**			**$(15.1)**	
1999	10.0	7.2			(17.2)	
1998	11.3	5.5			(16.8)	
Total revenues						
2000	**$ 589.2**	**$445.6**	**$ 20.1**		**$(15.1)**	**$1,039.8**
1999	517.7	282.2	8.3		(17.2)	791.0
1998	753.7	421.5	3.8		(16.8)	1,162.2
Operating income						
2000	**$ 184.5**	**$ 21.6**	**$ 12.2**	**$ (24.6)**	**$ (5.2)[1]**	**$ 188.5**
1999	153.5	13.3	2.0	(25.5)		143.3
1998	361.7	(30.7)	0.3	(20.8)		310.5
Depreciation, depletion, and amortization						
2000	**$ 100.3**	**$ 0.2**	**$ 4.5**	**$ 2.0**		**$ 107.0**
1999	83.1	0.2	3.6	1.9		88.8
1998	100.3	0.3	1.6	1.7		103.9
Capital expenditures						
2000	**$ 175.9**	**$ 0.2**	**$ 0.3**	**$ 1.4**		**$ 177.8**
1999	442.5	0.1	4.1	1.4		448.1
1998	627.9	0.1	7.8	1.9		637.7
Segment assets						
2000	**$2,105.9**	**$ 59.9**	**$ 14.8**	**$216.2**		**$2,396.8**
1999	2,014.0	41.7	15.1	193.7		2,264.5

[1] Restructure costs are discussed in Note 9.

No single customer accounted for more than ten percent of consolidated revenues for 2000, 1999, or 1998.

Revenues and assets by geographic area in the tables which follow were attributed to countries based on the physical location of the assets. The mobilization of rigs among geographic areas has affected area revenues and long-lived assets over the periods presented.

Revenues from external customers by geographic areas were as follows:

(In millions)	**2000**	1999	1998
United Kingdom	**$ 107.5**	$ 148.6	$ 182.7
Nigeria	**42.6**	57.0	38.1
Trinidad and Tobago	**28.1**	15.0	28.0
Other foreign countries	**130.7**	153.9	294.6
Total foreign revenues	**308.9**	374.5	543.4
United States	**730.9**	416.5	618.8
Total revenues	**$ 1,039.8**	$ 791.0	$ 1,162.2

Long-lived assets by geographic areas, based on their location at December 31, were as follows:

(In millions)	**2000**	1999
Trinidad and Tobago	**$ 415.6**	$ 15.8
United Kingdom	**176.6**	195.4
Nigeria	**19.1**	244.4
Other foreign countries	**291.9**	318.6
Total foreign long-lived assets	**903.2**	774.2
United States	**1,036.9**	462.2
Total productive assets	**1,940.1**	1,236.4
Construction in progress - United Kingdom	**-**	632.2
Total long-lived assets	**$1,940.1**	$1,868.6

CONSOLIDATED SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

(In millions, except per share data)	2000 Fourth Quarter	2000 Third Quarter	2000 Second Quarter	2000 First Quarter	1999 Fourth Quarter	1999 Third Quarter	1999 Second Quarter	1999 First Quarter
Revenues	**$ 332.4**	**$ 272.0**	**$ 231.3**	**$ 204.1**	$ 198.7	$ 168.6	$ 195.7	$ 228.0
Operating income	**61.9**	**54.6**	**49.2**	**22.8**	18.5	25.1	44.9	54.8
Net income	**40.9**	**32.3**	**28.1**	**12.6**	10.7	13.8	28.2	36.8
Earnings per common share:								
Basic	**0.23**	**0.18**	**0.16**	**0.07**	0.06	0.08	0.16	0.21
Diluted	**0.23**	**0.18**	**0.16**	**0.07**	0.06	0.08	0.16	0.21
Price ranges of common stock:								
High	**31¼**	**34**	**29⅞**	**26⅝**	17⅞	19½	16⅛	12½
Low	**21⅝**	**25**	**20⅞**	**15⅝**	14⅜	15	10½	7⅞

The Company's Common Stock, $.10 par value per share, is listed on the New York Stock Exchange under the symbol "GLM." At January 31, 2001, there were 6,027 stockholders of record of the Common Stock. The high and low sales prices of the Common Stock as reported on the New York Stock Exchange Composite Transactions Tape for each full quarterly period within the past two years appear under "Consolidated Selected Quarterly Financial Data," which follows the notes to the consolidated financial statements.

The Company did not declare any dividends on its common stock in either 2000 or 1999. Subject to the preferential dividend rights of holders of the Company's preferred stock, if any, the holders of the Common Stock will be entitled to receive when, as, and if declared by the Board of Directors out of funds legally available therefor, all other dividends payable in cash, in property, or in shares of Common Stock. The Company does not intend to declare or pay dividends on the Common Stock in the foreseeable future, but considers the declaration and payment of dividends from time to time.

Board of Directors

Robert E. Rose
Chairman of the Board, President and CEO, Global Marine Inc.

Edward A. Blair
Retired President, BHP Petroleum (Americas), Inc.

Thomas W. Cason
Retired Senior Vice President and CFO of Baker Hughes Incorporated

John M. Galvin
Retired Vice Chairman, Director and CFO of the Irvine Company

C. Russell Luigs
Former Chairman of the Board and CEO of Global Marine Inc.

Edward R. Muller
Former President and CEO of Edison Mission Energy Company

Paul J. Powers
Retired Chairman of the Board and CEO of Commercial Intertech Corp.

Ben G. Streetman
Dean of the College of Engineering and a Professor of Electrical and Computer Engineering at The University of Texas at Austin

Carroll W. Suggs
Chairman of the Board and CEO of Petroleum Helicopters, Inc.

John Whitmire
Chairman of the Board of CONSOL Energy Inc.

In Appreciation

We would like to thank two of our recently retired Board Members for their many years of dedicated service to Global Marine.

Mr. Edward J. Campbell retired in May 2000 after 19 years of service as a Global Marine Director. Mr. Campbell previously served as President of the J.I. Case Company, a manufacturer of farm and construction equipment.

Mr. Jerry C. Martin retired in October 2000 after seven years as a Director. Mr. Martin also served for 18 years (1979-1997) as Global Marine's Senior Vice President and Chief Financial Officer.

Both of these gentlemen have made valuable contributions to Global Marine over the years and their talents and wise counsel as Directors will be missed.

We would also like to extend our appreciation to Bloomberg News for the use of the selected image on page 11.

Design: John Weaver Design, Houston, Texas

Corporate Information

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President-Douglas K. Vrooman

Challenger Minerals Inc.
777 N. Eldridge Parkway
Houston, TX 77079-4493
(713) 266-9050
President-Thomas J. Morrow

Global Marine Drilling Company
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(281) 496-8000
President-Marion M. Woolie

Global Marine Integrated Services
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44-1224-246900
President-James G. McCallum

Global Marine International Drilling Corporation
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31-70-302-8300
Vice President-Khaled El-Barkouki

Global Marine U.K. Limited
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Scotland AB21 0DP
44-1224-246900
President and Managing Director-R. Blake Simmons

Affiliated Offices
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Douala, Cameroon
Ijmuiden, Netherlands
Lafayette, Louisiana
Lagos, Nigeria
Malabo, Equatorial Guinea
New Orleans, Louisiana
Port Gentil, Gabon
Port Harcourt, Nigeria
Port of Spain, Trinidad and Tobago
Rio de Janeiro, Brazil
St. John's, Newfoundland
The Hague, Netherlands

Transfer Agent for Common Stock
Computershare Investor Services LLC
P.O. Box A-3504
Chicago, IL 60690-3504
Toll Free 1-877-273-7879

Auditors
PricewaterhouseCoopers LLP
Houston, Texas

Annual Meeting
May 17, 2001, 9:00 A.M.
The St. Regis
1919 Briar Oaks Lane
Houston, Texas

Form 10-K
A copy of the company's 2000 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished without charge upon written request to:

Investor Relations
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Visit our web site at www.glm.com

Global Marine is a worldwide offshore oil and gas drilling contractor, offering both dayrate and drilling management services. As one of the largest dayrate drillers, the company provides fully-crewed rigs at specified prices per day, using its own diversified fleet of 33 active mobile offshore drilling rigs. As one of the world's largest offshore drilling project managers, the company provides a complete range of drilling services at daily rates or fixed prices per project.

Global Marine's common stock is traded on the New York Stock Exchange under the symbol GLM.